

103

JOB DEVELOPMENT AND THE ECONOMIC FUTURE OF THE SOUTHERN TIER

Y 4. B 22/1:103-152

Job Development and the Economic Fu...

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

JULY 8, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

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JOB DEVELOPMENT AND THE ECONOMIC FUTURE OF THE SOUTHERN TIER

FRIDAY, JULY 8, 1994

**HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC GROWTH AND
CREDIT FORMATION,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.**

The subcommittee met, pursuant to notice, at 1:15 p.m., in the City Council Chambers, Government Plaza, Binghamton, NY, Hon. Paul E. Kanjorski, [chairman of the subcommittee] presiding.

Present: Chairman Kanjorski and Representative Hinchey.

Chairman KANJORSKI. Today, the House Subcommittee on Economic Growth and Credit Formation holds the eighth in a series of field hearings on credit availability, job creation, and economic growth. Today's hearing will focus on the needs of the New York Southern Tier, particularly Broome County, Tompkins County, and Tioga County. Much of what we learn today will also address the needs of Ulster County. Today's hearing is the first the subcommittee has held in New York, and I would like to thank my colleague, Congressman Maurice Hinchey, for inviting the subcommittee to the Southern Tier of New York to hold this hearing.

As a Congressman who represents northeastern Pennsylvania, I feel a particular affinity for my neighbors to the north, the New York Southern Tier. The area I represent suffers from many of the same economic problems as the Southern Tier. We know the disadvantages which accrue from being a secondary market instead of a primary market, like New York City and Philadelphia. As a result both regions must develop a capacity to grow from within.

The people of the Southern Tier, particularly the 26th Congressional District, were very fortunate to be represented for most of the past two decades by an extremely thoughtful and hardworking and admired Member of Congress, former Congressman Matt McHugh. Like Maurice Hinchey I, too, succeeded a Member who served for several decades, who was a living legend in my district. As a result, I know how difficult it is for a new Congressman to live up to the high expectations and the standard of excellence set by his predecessor. I am pleased to report to the people of the 26th Congressional District of New York that they have once again chosen wisely.

Maurice Hinchey has already made his mark as one of the most knowledgeable, determined, resourceful, and respected Members of Congress in a very large freshman class. What has particularly impressed me about Maurice is that he is a firm believer that individ-

uals can control their own destiny, and he has both the vision and a plan to build a better economic future for the Southern Tier. Job creation is clearly his top priority, and he understands the many complex elements that must be part of any successful job creation strategy, from credit availability to regional cooperation, job training, defense conversion, reindustrialization, and infrastructure repair.

When my subcommittee began work on legislation to create new jobs and businesses by promoting the transfer of emerging new technologies from government laboratories to the private sector, Congressman Hinchey was one of the first Members to understand its job creating potential. He offered constructive suggestions to improve the bill, and he was the most single, active, vocal, and persuasive advocate for the bill when it reached the House floor and was approved by a two to one bipartisan margin. Maurice asked me to hold this hearing in the Southern Tier because he understands the importance of bringing together Federal, State, and local officials, area business and labor leaders, academics, and economic development experts so that we can learn from each other.

All too often people view congressional hearings as inquisitions. This hearing is meant instead to be a learning experience. Each participant brings a unique perspective to the problem before us of creating new jobs and economic prosperity in the Southern Tier of New York and areas like it across our Nation. The advice Congressman Hinchey and I receive today will help us advise our colleagues in the Congress on the next step we can take to increase job creation and promote sustained economic growth both here in the Southern Tier of New York, in northeastern Pennsylvania, and across the Nation in the many secondary markets that are similar to these.

Without objections, our witnesses' prepared statements will be made and submitted as part of the full record of the hearing. After Congressman Hinchey has made his opening statement, I will ask each participant to identify themselves, and then to summarize in 5 minutes or less the main points of their written statements. Once the participants are done with their opening statements, I want this to be a very free-flowing and open dialog where everyone feels comfortable to question and comment on the statements of others.

And I may add that I expect you to do so to myself and the Congressman here. So often the appearance is that we are above challenge. Hardly the thing. What I want to really indicate is that both Maurice and I are more acutely aware than ever that what we take back from these hearings to help us in Washington is the insightfulness that you will give us by questioning some of the attitudes we have, and thought processes we have. So please do not allow us, because our bench here is just a little higher, to make the assumption that we should not be challenged. Perhaps we want to do away with that difference. We are all on an equal plane, a peer group here, and anything we can learn and experience would be most helpful.

And now it is my distinguished pleasure to represent the distinguished Congressman from the 26th District of New York, and my very good personal friend, Maurice.

Mr. HINCHEY. Well, thank you very much, Paul.

Mr. Chairman, I sincerely appreciate your kind words, and I am also extremely grateful to you that the subcommittee has chosen Binghamton as the site of today's hearing. I am anxious to hear the testimony of our impressive set of witnesses, and I have only a brief statement to make before we get down to business.

As we all know, the Southern Tier faces many important and complex economic challenges in the years ahead. I have just announced the results of my 1994 questionnaire that was circulated throughout the 26th District, and it is clear that the future of the economy of the Southern Tier is on everyone's mind. Forty percent of those surveyed stated that they are not optimistic about their economic future, while only 35 percent felt that they were optimistic. This outlook is a result of a local economy that has suffered greatly because of the cutbacks in national defense, the restructuring of major corporations, and the recent recession which has made a terrible impact particularly on the manufacturing sector of the American economy. I believe that the Federal Government must be doing more to create good, decent paying jobs for the thousands that are out of work in our area. The good news is that we are working hard to find solutions to these challenges, and this hearing marks an invaluable opportunity to explore some of the potential solutions that we may have to these problems.

Many people have meaningful suggestions to make in the context of that questionnaire that I mentioned, and I feel that they ought to be considered in Washington. They included providing low interest loans for businesses located in communities impacted by defense downsizing; expanding and improving job training programs; and a variety of other thoughtful suggestions. One of the most dramatic results of the survey is that 75 percent of people responded supporting the Federal Technology Commercialization Act that you created and sponsored, Mr. Chairman, in the Congress. This is a worthy tribute to your diligence, creativity, and understanding of the value of good jobs. I was pleased to have the opportunity to participate with you in the fight to get this legislation passed by the House, and I will continue to look forward to the opportunity to work closely with you as we proceed to conference with the Senate.

Another issue that I know many of you are interested in is the transfer of ownership of the Broome County Industrial Development Agency of the Martin Marietta plant. This transfer has been approved by the full House of Representatives as part of the Defense bill, and this week I have personally appealed to Senator Moynihan as well as Senator D'Amato for their support. I am optimistic that this will become a reality before the end of the year.

These steps are only part of the solution to the economic challenges that we face here in the Southern Tier. I want to reaffirm what the chairman said in his statement, that this is not by any means an inquisition of any sort, it is a learning opportunity for us; I hope for everyone participating. We have assembled an impressive array of witnesses, as we have representatives from both the Federal, State, and local levels, as well as people from the business, academic, and labor communities here in the Southern Tier. I look forward to the unique input of each participant, and again, Mr. Chairman, I want to thank you for traveling up this way from

Pennsylvania and for choosing this site for one of your field hearings. Thank you very much.

Chairman KANJORSKI. Thank you very much, Congressman. I have to say that maybe I should give a transportation report. If you are traveling on 81 north or south a lot, time was lost coming up. It is a tough traffic situation. But as one of my assistants said, obviously New York received the benefit of some of the transportation money most recently passed by the Congress because you are out there correcting that highway.

As the Congressman indicated, we have an impressive array of witnesses today. And as I indicated in my statement if—we will now move that all the statements of all the witnesses be incorporated in the record as if fully read. And I will ask them—if there is no objection we will do that, and I ask them to summarize, as best they can, for about 5 minutes those statements. Because, quite frankly, we will get an opportunity to read them, the people that read the record will get an opportunity, but we will not get an opportunity to talk to these people on a formal or informal basis as we would like to, because some of the insights you may have may be particularly helpful, and we will have the benefit of your written statements for as long as history occurs.

So at this time I would like to introduce, representing first from the Federal executive branch, Mr. Chester J. Straub, Jr., Deputy Assistant Secretary, Program Support, the Economic Development Administration of the U.S. Department of Commerce. Mr. Straub.

STATEMENT OF CHESTER J. STRAUB, JR., DEPUTY ASSISTANT SECRETARY, PROGRAM SUPPORT, ECONOMIC DEVELOPMENT ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. STRAUB. Mr. Chairman, Congressman Hinchey, other distinguished witnesses, ladies and gentlemen, thank you for this opportunity to appear before the Subcommittee on Economic Growth and Credit Formation today as we focus upon economic conversion and job growth, and the efforts of the Economic Development Administration and the Federal Government to assist American communities to adjust to the needs of today's global economy. And Congressman Hinchey, I thank you for inviting us to New York. Being a native New Yorker, I do not get up here as much now that I am down in Washington. I appreciate the opportunity to do so.

Mr. Chairman, I commend you for the timeliness of this hearing. The challenges facing economically distressed areas around the United States today are vastly different than they were just a few short years ago, where the local economic development needs of many of America's communities once was purely public works and infrastructure to enable economic growth. Today the same communities are faced with different types of challenges, including increased competition, both domestic and foreign, and changes in governmental policies, including shifts in defense spending and increased sensitivity to the protection of the natural environment.

These new challenges have impacted dramatically on America's traditional industries, and have affected every community in this country. And with these new challenges comes the need for new approaches at the local, State, and Federal levels to government's role

in supporting local economic development and private sector investments.

In response to these challenges, the Clinton administration is pursuing a strategy which furthers the partnership of government and American industry, promote American competitiveness, economic expansion, and job creation. This partnership is not just one with national industry, but also one with America's local communities.

At the community level, future prosperity is increasingly a function of the effectiveness of government and industry working together to meet the challenges of economic expansion and job creation, and to take advantage of these opportunities. At EDA we are redirecting our programs and tools which we use with the objective of ensuring that economically distressed areas and regions of the United States benefit from the new Federal commitment to promote America's globally competitive high growth industries.

Since its creation in 1965, EDA has targeted its resources to communities suffering high levels of economic distress, and this must be no less the case today. As the Federal Government seeks new ways to assist U.S. industry to remain globally competitive, EDA must use innovative new tools to assist those communities which are outside the mainstream of economic growth.

This economic change has undermined the traditional economic base in many communities, and created tremendous new economic opportunities. It has created an imbalance that cannot be ignored; that many communities traditionally in the economic mainstream have suffered dramatically over the last generation, while new economic opportunities have tended to emerge elsewhere. This economic change has created a new imperative at the community level. EDA operating at the local level insures community ownership in the economic development projects which it funds, and enhances business formation and expansion in distressed communities.

EDA is working toward creating financial inducements for the growing globally competitive industrial sectors to invest in distressed communities; and more importantly, to create industrial linkages between the community leadership and the business leadership so those companies can form the economic base for the future.

New York State, with its vast and complex economy, presents a particularly difficult challenge, yet also many opportunities. In the past year alone EDA has provided approximately \$7.2 million in economic assistance grants to New York communities. These grants, have ranged from \$600,000 to the Western New York Development Corp., a 5-county grouping in the Buffalo area, to provide technical assistance to subcontractors and suppliers in the automobile parts industry, to a \$4.5 million grant to the New York State Department of Economic Development to assist in defense adjustment activity of the Long Island based aviation manufacturers.

EDA is currently working with local organizations on several projects which can greatly increase the competitive economic base for New York's communities. These include infrastructure development for incubator business assistance centers at Ulster Commu-

nity College and in Dutchess County. These centers will work to foster the development of new advanced technology businesses, and expansion of existing businesses in response to cutbacks by IBM in staff, and reductions in research and manufacture in the local area, as well as a technical assistance grant for small businesses in Broome and Tioga Counties to assist in adjusting to further IBM defense related cutbacks. These and many other projects in New York State are examples of the traditional activity of EDA. These will continue to be in demand, and will continue to be an important and major part of EDA local economic development efforts.

But in addition to the already flexible array of tools at its disposal, EDA needs to take advantage of other forms of innovative financial assistance. For nearly two decades EDA has provided grant funding for not-for-profit and public intermediaries in economically distressed communities across the country who established approximately 420 revolving loan funds. A total investment of approximately \$350 million of EDA funds has leveraged an estimated private investment in excess of \$1 billion, and created more than 100,000 jobs. These revolving loan funds have operated at the local level to provide flexible, subsidized financing to businesses which represent economic development priorities to local community leadership. Our strongest revolving loan funds have built linkages between community leadership and business leadership in these communities, which have aided in stabilizing the economic base and which have helped to prepare these communities to meet the economic challenge of the future.

In general, however, the revolving loan funds need to be more closely tied to national priorities, and have suffered insufficient funding, lack of flexibility with available financial instruments, and insufficient liquidity of their debt. In this administration we propose to address these issues by linking the revolving loan structure more into the national priorities, increasing the funding levels, and providing flexibility needed. In order to increase financing and facilitate liquidity of revolving loan debt instruments, EDA will need loan guarantee authority, and that is a high priority of not just EDA, but also of the Clinton administration.

As an economic development tool, these loan guarantees would be a catalyst to encourage and assist private sector investment and will help to create jobs. EDA would provide assistance to finance existing, emerging, or expanding private firms which have been identified as local priorities under a local economic development strategy. EDA loan guarantees would enhance the ability of these firms to obtain investment capital necessary to remain or to become more competitive in a global economy. In either case, the loan guarantee would become a flexible financing tool that would be used in risk-sharing arrangements to enhance community economic development priorities that result in long-term, high growth job opportunity in distressed areas.

As seen in this State, the economic needs of local communities are as varied as the communities, themselves. The Federal Government can most effectively assist these communities through a partnership of public and business leadership which leverages private investment many times the amount of available Federal funds, expands business activity investment by local intermediaries, and en-

hances private lender participation in community economic development. This administration and the Economic Development Administration are committed to meeting these challenges by maximizing Federal leadership and participation through existing EDA Programs, and needs expanded financing authority.

Mr. Chairman and Congressman Hinchey, I greatly appreciate your invitation to participate today in this forum, and look forward to working with you in the subcommittee on these issues in the future.

[The prepared statement of Mr. Straub can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Mr. Straub.

Next we will hear from Dr. Richard Van Atta, Special Assistant, Dual Use Technology, Assistant Secretary for Economic Security of the U.S. Department of Defense. Doctor.

Doctor, may I caution you, for this feedback if you can hold the microphone close to your mouth, a little higher.

STATEMENT OF RICHARD H. VAN ATTA, SPECIAL ASSISTANT, DUAL USE TECHNOLOGY, ASSISTANT SECRETARY FOR ECONOMIC SECURITY, U.S. DEPARTMENT OF DEFENSE

Mr. VAN ATTA. I had the pleasure of appearing before your economic growth subcommittee about 9 months ago, I believe. I had to prepare testimony then, and we had lively discussion during that time. I appreciate the opportunity to come here. I do not have prepared testimony today, and I think that may be just the best thing, given the environment here, open discussion and that, I guess, sharing of ideas.

Congressman Hinchey, I welcome the opportunity to come up to this part of New York. I have had the opportunity now of visiting both the Long Island Sound area and the Rome Air Force Base area of Utica. There was a very good conference put on there dealing with dual-use technology, very effective, very well done. And, of course, I have been to New York City on several different occasions dealing with technology and growth opportunities prior to coming into government.

But this is a nice arena for this hearing and a very important area to discuss this topic. Because one, it is very clear that there are a couple of things that make this area sort of a test bed for our success—hopefully, it will only be success. First of all, it is a diverse area. It has considerable amounts of defense business, doing very important defense work. It also has suffered the effect over having had that business over the last several years now cutting back substantially. And we have some real reasons why we are doing that, both budgetary and strategic reasons.

This area also has some very good technological capabilities in commercial industries. We have been involved, as you are well aware, with the flat panel display area. The Corning activity, in terms of providing a fundamental world infrastructure for the glass that is needed for flat panel displays, is by far the world leader and the envy of the Japanese who are trying to compete with us.

We have seen, in some of our information, very special attention the Japanese have paid to try to figure out how to, let us say, remove the dependence they have on Corning as a world supplier.

They see that as one of their what they call "Five Tigers." Turns out the other four of the "Five Tigers" are also infrastructure areas of flat panel displays that are very specifically U.S. company dominated. We understand that the technology capabilities of this area are robust, and the universities you have here, and Cornell and others, are extraordinarily good assets that you have to draw upon.

So the question that I have before me is: How does this fit into what we call our dual-use technology strategy? What are we doing? Where are we going with it? Perhaps we could go into it a little in terms of our specific effort, you might say our archetype program of the flat panel display initiative. We would like to talk a little bit about that here, and perhaps then a little broader discussion about the TRP and other kinds of programs we have and how they can be made more effective and more useful.

I was in California as a neophyte government representative when I first came into this job about a year or so ago, and we were asked why was it that the TRP did not do this, that, and the other thing in terms of venture capital representation, business inputs, and so forth. And I said, "Well, there are a lot of things that we could have done to make it perfect." But one thing we did do is, we got a program together that is in the process of disbursing over half a billion dollars of funds for technology reinvestment, with very specific, well-identified program goals and objectives. And I am a firm believer in what we call program improvement and in-process, in situ, if you will, improvement in program development. And with feedback we can make it better and achieve our mutual goals that much better.

Let me tell you quickly about the dual-use technology strategy that we have put together. This is something which goes back deeply into the thought and mind of one of the most intelligent and creative Secretaries of Defense that this country has ever had, Bill Perry. When he was selected originally as Deputy Secretary of Defense Les Aspin, he knew very well that one of the key underpinnings of Mr. Perry's thought was the need to integrate defense industrial and technological capabilities in production, R&D, et al, into the commercial, industrial, and technological industrial capabilities of the country.

And this is not something that is new to Bill Perry. When he was the Undersecretary of Defense for Research and Engineering, the predecessor to the USDA job—the Undersecretary for Acquisition and Technology today—he had already, some 14, 15 years ago, laid out the blueprint for this, and in fact was very supportive of the Packard Commission for revamping DOD acquisition.

So these are not new fly-by-night ideas. He fostered these ideas in his work on the Carnegie Commission, working with Mr. Deutch and with Dr. Flamm, who is my boss, the Principal Deputy Secretary for Dual-use Technology Policy and International Programs.

These ideas first of all formulate as a basic concept that defense can no longer rely on specialized production and research capabilities that cost more, produce less, and take longer to get there. We must find ways of linking our capabilities that we need for defense into what we can get out of the civil economy, taking advantage of larger scale production capabilities.

Then that raises some very interesting questions. One: Can it really be done? Clearly, there are experimental issues here. Can you get real defense capabilities and systems adequately from this kind of approach? We believe that is the case, and we think we are well on our way to demonstrating how this can be done.

Other questions come out of this: If you are going to depend on a dual-use technology base, where you are focusing on the commercial sectors, that means that you have a stake, from the firmest defense standpoint, in the health and well-being of key sectors of your national economy. Now, that does not mean we are not interested in and will not draw upon foreign technology and foreign capabilities for defense capabilities when we need them and when they are available and when they are accessible. This is a global world of economy and technology, and so we must be prepared, in order to sustain our overall defense capabilities, to draw upon assets around the world.

But we would be remiss if we did not say that our primary focus and need is to make sure that we have those key capabilities within this country, and can draw upon those. We invite foreign companies to come here with their investment and establish those capabilities. We do not dismiss that. Foreign investment, in fact, in the person of companies such as Kyocera, which is a ceramic chip carrier company; or Sony, for example, in producing in the United States color CRTs; or Thompson, which maintains the RCA color television facility in Bloomington, Indiana, where I went to college, are examples of foreign investment in technology and production which create jobs and do create good capabilities in the United States.

But we also want U.S. based industrial and technological capabilities. And we have reasons for that. One of the major reasons is we need to have within the Department of Defense intimate access to and knowledge of, early on, new developing technologies. When I was involved with dealing with the issues of semiconductor lithography and the overall semiconductor technology base, we had a lot of discussions with IBM about the amount of investment IBM was putting into lithography, and why were they putting so much money into next generation lithography and working with companies in the United States. Well, the answer was simple. They could not depend upon access to the foreign technology base for the second generation or next generation lithography tools that would make their generation-beyond-that chip. They needed to have that interconnectivity and relationship. And that is something that you do not get when you are dealing with companies that are wedded to foreign competitors. That is something that is important to the commercial industry, and it is very important to the Department of Defense that we have that kind of access and trust relationship with our suppliers and their suppliers, as well.

We also need to have assured access. This is a major issue when it comes to the availability of technologies in offshore. This is a new world we live in, so when we are talking about assured access it does not mean that we are now operating on the same scenarios that we were when we had a Soviet threat that had global reach. Then we had to be concerned about the near instantaneous knock-out of suppliers based offshore. But we do have to have strong ca-

pabilities here that assure us that we can make things here under circumstances when they can be cut off. Clearly, domestic production capabilities is one way of assuring that. That does not mean, again, "autoarchy," but it means that we need to be concerned about our internal production capabilities.

Finally, we have to have affordable access. We need to be able to get economically available to the Department of Defense technologies and technological capabilities as products, commercialized in the product base. Fortunately, in many areas we are very good in R&D. Flat panel is a case of almost a pernicious example where we are extremely good at R&D. We, in fact, at the Department of Defense and ARPA, for years were paying on the order of \$100 million a year for the world's best R&D, but we almost produced no displays. We were 95 percent dependent in the commercial industry, and well over that in defense, on foreign suppliers for flat panel display technology our domestic suppliers are noncompetitive. That is a real problem, because that means defense, when it goes to the defense unique capabilities, is paying extreme premiums, on the order of 100 to 1 today for the price of its display relative to what is available in the commercial market. So it is not affordable.

Over the long haul, using domestic, defense-unique suppliers the United States is not going to be competitive in the technology, itself. Because the small defense-unique capability Defense could pay for would, one, have to pay for its R&D on its own. Against a \$5 billion global investment, DOD would then have to match its \$100 million a year. Clearly, that is not going to keep up with the state of the art.

At the same time the commercial industry in the United States is not at a point where it can do anything relative to the R&D base. We need to have a change state. And it is because of that that we initiated, after nearly a year of intensive study, the flat panel display initiative. And I will be more than happy to go into some of the details of that.

So those are some of the basic issues and rationales that we are dealing with. And I could go into a lot more detail. As part of this we are developing and will have out, hopefully quite soon, what we call our dual-use technology plan. This is in process working between Dr. Flamm's office in Economic Security, and Anita Jones, who is the Director of Defense Research and Engineering. One of the key elements of that I can give a little bit of presage to is what we call our Dual Use Technology Application Program which looks for creative ways of building up our production base in dual-use areas that are directly related to DOD, but also have impact across the broader industry and focuses more specifically on the issue of commercialization. Thank you very much.

Chairman KANJORSKI. Thank you very much, Doctor.

Mr. HINCHEY. Thank you.

Chairman KANJORSKI. And our next witness from the Federal executive side, Mr. Brian Monroe, Project Director, Office of Economic Adjustment, Department of Defense.

STATEMENT OF BRIAN MONROE, PROJECT DIRECTOR, OFFICE OF ECONOMIC ADJUSTMENT, DEPARTMENT OF DEFENSE

Mr. MONROE. Thank you, Mr. Chairman, Congressman Hinchey. It is a great pleasure for me to be here today. My name is Brian Monroe. I am a Project Manager with the Office of Economic Adjustment, which is a part of the Office of the Secretary of Defense. We have been in business since 1961 helping communities that are affected by defense downsizing. In those early years it was primarily base closures; today we work with a whole range of activities, including base closures, defense industry adjustment, and all types of other adjustment and planning challenges.

Before I start, I would like to offer my compliments to the Southern Tier community for doing a fine job of gearing up and beginning a process of recovery. As you know, you have lost many thousands of jobs in the course of defense downsizing. Your response, which we have been a partner to along with the Economic Development Administration and others, has developed a strategy which we think is a model, and that is a regional strategy. This book is available here, and I will tell you in a minute who has that. And we have found that there is much to learn here about how you go about developing a strategy to overcome what is very much a structural change in your economy.

I would like to recognize a few folks here today who have been very effective partners in this process. First off, sitting on my left, Dennis Allee and the State of New York's Economic Development Department have been absolutely critical in making this happen, as well as a number of efforts around the State. Working with Dennis is Fred Paris from the office right here in the Southern Tier. They are doing a fine job of pulling this together and actually advancing the art, if you will, of adjustment planning.

A key funding source and partner in this is the Economic Development Administration, and I would like to compliment their staff at headquarters here, as well as John Marshall, who is the upstate New York person in that business. John and others are a part of a number of these efforts all around upstate New York, and they could not happen without funding resources that these folks help get to you in the process.

If I could, I would like to sort of boil down what we do in our defense industry projects by talking about a couple of themes. Our most important theme—and it is kind of our mission, if you will, with communities—is to empower communities to respond effectively to defense downsizing. And what I mean by that is that we in the Federal Government do not know all the answers, nor do we know the solution to your economic problem. Rather, we feel that we have the tools to provide to you to figure out what those answers should be.

Communities around the country have a couple of common themes as they search for those solutions. First off, they have been very effective at developing strategies for long-term, sustainable recovery. While these strategies do not result in immediate jobs produced, they are very important roadmaps, if you will, for how to get there. We found, in doing this since 1961, that if we do not have such a roadmap your success will be haphazard at best. That is why this plan I pointed out a moment ago is so important.

Second, many communities are now very good at helping business become better at what it does. Today the issue is capital availability, and certainly that is a common theme wherever we work. Simply put, defense business has a hard time going to banks and getting money like it used to. I was in Long Island yesterday talking to a defense company and they told me that, even as an established defense company, they had to go to 36 banks before they could get a line of credit, and that is as an established defense company. To us, of course, it is a very alarming consideration.

However, it is not the only problem they face. Obviously, defense companies now need to consider dual use, as my colleague talked about a moment ago, and in the course of doing that they need to function as a company on the private side of the marketplace; hence, they need to market, they need to develop better business plans. They need to do what they do probably at less cost per product. Communities now are in a position to offer companies assistance in achieving those goals. They are able to tap into resources to make that happen.

And finally, although I think it is probably actually the first order of business for most communities, is to assist those workers who are affected by defense downsizing. But we see that first, in the line of activities as the community organizes is: Well, we have a fire to put out. We have 10,000 workers who are being laid off by McDonnell-Douglas in St. Louis. What will happen to those workers? That is where a community effort can effectively reach out to them, offer them retraining activities and a whole variety of assistance that can really make a difference to those people who are affected in a very personal way by this.

To those of you who would like to know more about the whole area of defense conversion, the Department of Commerce, through its Economic Development Administration, in partnership with us at the Department of Defense, have established a 1-800 number administered by the Office of Economic Conversion Information which is staffed essentially with a huge data bank available to you to call and find out what the state of the art is on any number of different issues. And if you have a pen handy and you are interested, I can give you the 1-800 number now. It is 1-800-345-1222.

Calling that number will get you an operator who will plug you into a whole network of information. If you have a computer with a modem, it will also tell you how you can use that modem to download full Federal documents, as well as a variety of resources that you may find helpful in the course of your thinking about this issue.

Finally, in conclusion, I would like to say that we at OEA are in this for the long run. We will be a partner as the Southern Tier goes about this process, as well as more than 100 communities around the country for a number of years to come. You need to be patient in this process because it does take awhile for it to fully work, but we fully believe that it will work ultimately. So I look forward to getting to know you and to getting to know this community better as I learn about your efforts and do what I can to help. Thank you very much, Mr. Chairman.

Mr. HINCHEY. Thank you, Brian, very much. Our next witness is Mr. Frederick Paris, regional director, New York State Department of Economic Development.

STATEMENT OF FREDERICK PARIS, REGIONAL DIRECTOR, DEPARTMENT OF ECONOMIC DEVELOPMENT, STATE OF NEW YORK

Mr. PARIS. Thank you, Mr. Chairman.

In the last 5 years the Southern Tier region, for which I am responsible, which includes nine counties from Hornell on the west to Oneonta on the east, has lost 14,000 manufacturing jobs. From Amphenol in Sidney to IBM in Endicott to Shea Graphics in Elmira, virtually every corner of this region has felt the pain of corporate downsizing and defense cutbacks.

In fact, as I think a lot of people know, the Southern Tier has the second highest concentration of defense dependent companies in the State, and the 10th highest in the Nation. In Broome County alone defense spending has dropped by 80 percent since 1985. At the present time in the Binghamton MSA 24,500 people are employed in manufacturing, which consists of Broome and Tioga Counties, we have reached the lowest level of manufacturing employment appointments since its peak of 41,500 jobs in 1982, which represents a 40-percent drop in the last 12 years.

To help deal with these problems, in 1990 we approached the Office of Economic Adjustment and the Economic Development Administration for help in terms of preparing an economic adjustment strategy. And with that, I would like to thank Brian and John Marshall and all the folks that we have dealt with in EDA and OEA over the years for all the help that they have given us.

That report has been completed. Over 90 recommendations were included in the study. To help move that into an implementation phase we went back to OEA, were able to obtain, with the help of our department in Albany, some money to implement the proposal. We have hired a consultant who is approximately halfway through his effort. We are trying to wrap up, if you will, the initial phase of this by the end of 1994. But to help deal with this issue we brought together a task force of 100 people who represented business and industry, education, government, and economic development to address the issues outlined in the study, and really focus on those areas that we need to concentrate on to turn the Southern Tier around.

We feel strongly that it should be a private sector driven effort. Along those lines, we have a core industry and business group that has identified several issues that the educators, the economic developers, the government people can help with as enablers. It needs to be a private sector effort if, in fact, we are to turn things around within our community.

We feel strongly that the way to do that is to increase sales and competitiveness. The hard part, of course, is: How do you accomplish that? Some of the activities that we are involved with and we can see that role as being priorities from our standpoint include increasing the accessibility of capital. And we know that is a prime concern of this community. Some of the things that we have done to date and will be continuing to do over the next several months

is, the professional economic developers in the nine counties will come together and form a regional development corporation. They have authorized an application to the State Urban Development Corp., to capitalize a revolving loan fund for working capital to help fill some of the niches that are not being currently satisfied by banks and other sources.

Additionally—and as a matter of fact we just met this morning—we had a consortium of banks from throughout the region that have come together to address some of the other issues regarding credit formation. We are hoping—and this may be unique, I think certainly maybe in terms of New York State, I do not know about the country—but a public-private partnership concerning seed capital formation. We hope to work hand-in-hand with a venture fund that has been established in the Ithaca area to see if we cannot obtain some State resources that could be coupled with that to help entrepreneurs and small business in the most difficult stage of development, which is the zero stage or the first stage.

We also are looking at a loan pool of banks that would come together to work as a group to spread the risk of capital so that companies looking to make conversions from defense to commercial can avail themselves of additional resources that currently may not be available.

And last, a loan loss reserve fund with the help of the State to stand behind loans that again deal with riskier endeavors. So we feel very confident that in the near future we will have some additional financial resources to address some of the ills that we do have.

I should mention, in relation to that, that we hope to and plan to submit an application soon to EDA, under Title IX, as a result of our efforts through the strategy. One of the items that we hope to address is revolving loan fund resources to supplement what the State will provide. So we are hopeful that additional resources and help will be forthcoming from EDA in that regard.

Another major concern has been the economic development delivery system. I do not think it is any secret that businesses at times have had trouble obtaining assistance; and when they could, the timeframe in which they had to deal with it was unrealistic, they became frustrated, and simply left the system. One of the things that we are hoping to do locally—and I know that Congressman Hinchey is aware of it—is that in collaboration with Unipeg, the Broome County Industrial Development Agency, and other economic development organizations, is to form the Enterprise Center, which would be a co-location facility in downtown Binghamton. My office, Unipeg, and the Broome County Economic Alliance will be located there, hopefully along with several other organizations, to provide essentially a one-stop shopping network of resources for businesses and people that need services without having to go to 10 different agencies to find out how to avail themselves of those resources.

Additionally, with the high-technology incubator which I am sure Kay Adams will speak more about, we are trying to improve the delivery system.

In terms of helping companies become more competitive, we have several efforts underway there as well. One of the ones that I think

has the most promise, and certainly may be the one that is most difficult to accomplish, is the formation of networks and consortia. We have a predominance of certain types of industries in the Southern Tier; electronics packaging, software to rail transportation, primary and secondary wood products, and biotechnology. As part of our strategy implementation plan we are working with various companies that hopefully will form joint ventures, work together in terms of sharing technology, providing a basis by which to create products and get into markets that otherwise by themselves they could not do. Virtual companies is also something we are looking at, that hopefully will be an outgrowth of this particular activity.

So I guess in closing there are a number of initiatives that we have ongoing that come out of the strategy. I do not think without the strategy that we would have a ray of hope in addressing the issues that need to be addressed. I like to think that we have the private and public commitment that is necessary to move ahead with a lot of these initiatives. And with your help in the next year or so we will make some fine progress, I hope.

[The prepared statement of Mr. Paris can be found in the appendix.]

Mr. HINCHEY. Thank you, Fred.

Our next witness is Mr. Dennis H. Allee, who is the senior deputy commissioner, Department of Economic Development for the State of New York.

STATEMENT OF DENNIS H. ALLEE, SENIOR DEPUTY COMMISSIONER, DEPARTMENT OF ECONOMIC DEVELOPMENT, STATE OF NEW YORK

Mr. ALLEE. Thank you, Congressman.

Fred and I are appearing a little bit as a tag team, so I will be pretty brief. My perspective is just a little bit different from Fred's because I oversee a number of the State's Economic Development and Industrial Modernization Programs from a statewide perspective, and I also cochair the Governor's Defense Diversification Panel which has been in existence for 3 years. I am not sure what I can offer you, Congressman, except that I will try to translate a few of the needs that I see working with literally hundreds of New York State companies and communities every day, so just a few suggestions that you might want to take back to Washington.

One of the things that is happening in the Southern Tier effort that is extremely important—Brian Monroe put his finger on this—that this is really a very carefully conceived effort that is built on strong, strategic underpinning involving a lot of people. And I have been involved in the strategic adjustment efforts for 30 years starting with Senator Javits back in the good old 1970's. And the only ones that ever work are ones that have really quality people working together as a team.

The region is very fortunate because my boss, Governor Cuomo, has committed himself to this entire effort; in fact, was down here 3 weeks ago, one of many visits, and met with all the leaders involved in the adjustment effort, to commit to them his whole-hearted support of what is going on here, and some very tangible resources to back it up.

The region is also extremely fortunate in that they have Congressman Hinchey in Washington. And Maurice has already indicated—already demonstrated tremendous support for some of the key projects here. I have known him for 15 years in the environmental planning area, and there just could not be a better person to try to bring home some bacon for this whole effort.

The thing that is particularly important about it, though, is that it is also a team effort that involves not only Maurice and the Governor, Fred Paris, but the Federal agencies, Brian Monroe from OEA, the EDA folks, John Marshall, have really worked with us as a team. And the lesson to take back—and I will try to be as general about this as I can—is that the Federal agencies and those in Congress who are passing the laws ought to take a hard look at team effort, because in the past it was not there.

It was not that the Federal Government was not doing good things, but they would do them from the top down, and they would set up separate systems for delivering services. And they did that at a time when the States were very weak in this area. Some of them were actually backward. Not New York, but some of the Southern States. And we have gone beyond that, because what has happened here now is that the locals, people like Mark Joiner from Binghamton and the State, are frankly 10 and 20 years ahead of the Federal Government in terms of what we do in the area of economic development.

So it really behooves everybody to try to see if they can somehow bring the State resources into a provocative application with a local level. And in fact OEA and EDA have been doing that in the Southern Tier, but I would urge you, when you are passing new legislation in Congress in this area, to put in very strong coordination mandates. They may sound like rhetoric, but they are extremely important not to duplicate resources and not to create whole new systems for applying resources. That is sort of my general thing. And I think you have got a model right here, because we are working as a team with Brian and John, and nobody is running off and doing their own thing. And that way we bring a lot of firepower into this region in the next 5 years.

A couple of specific things. There is a whole new thing going on in the area of needs, because people are listening more closely to their customers. And the kinds of tools that government is developing to respond to them are totally different than the past, with one exception, and I have to mention this because of your interest in the whole area of EDA. What I hear in every region of this State is what the communities want—and even some of the companies—are the kinds of products the EDA has been delivering under Title I and Title IX for 20 years. Now, that may be surprising, and it is even surprising for me to say it because I am more on the cutting edge of some of the new things that are going on. But just 3 years ago, as you know, Maurice, we had a bond issue in the State that failed that was supposed to bring in resources for economic development projects, and we enlisted over \$4 billion of projects from New York State alone, I think something like half a billion dollars from this region. So if there is anything you can do in the long term to try to build back the resource levels of Title XI, which is by far the most flexible Federal program, and Title I, the old Public

Works Program, it would be a tremendous shot in the arm for New York.

In the area of defense diversification, my only suggestion to you is that we have been at this now for 4 tough years, starting with the Governor's Defense Panel in 1990. We have literally worked with over 300 defense firms on a daily basis, so we actually have a real good sense of what they need. And I will tell you what they need: They need some technology; they need some of the dual-use things, the bigger companies. What they really need is to get their act together. They need help with strategic planning about where they are going, how to run their companies, where their markets are.

And the State has drafted some programs in order to help them. We have actually helped 500 firms in this State, 200 of which are defense firms, to strategically plan for the future. And if there is any way that the Federal Government could look at some of our programs and try to give us some more resources to help out, it would be tremendously helpful.

The second thing we have learned in working with all these companies is the key to success for almost all of them is going to be how they treat their workers and how they use their workers. Five years ago I would have been shocked to hear myself say that. But the small companies in this State are making changes they need to be competitive by restructuring their work force system; by making better use of their workers; by empowering their workers and going to team building. And I must tell you, Maurice, that there is not a dime, except through EDA, that comes through the Federal Government to help existing companies—companies build with their existing workers. And it is the biggest void that we see at the Federal level. And with a \$3 or \$4 billion Federal budget going to workers who are out of work, which is a very good thing to do to help the dislocated workers, we ought to be able to come up with some resources to try to support the States who are working with companies all over this region of the State to introduce high performance work organizations. It is absolutely critical.

The final thing, as both Fred and Brian alluded to, is the need for finance. I know the White House and several other places there is some question as to whether the defense industry needs financing to convert. Let me tell you from working on the street every day, from our survey of over 400 defense firms on Long Island, it is a big need in this State. And the existing programs, although they are good ones like SBA and some of our State programs, are helpful. They do not really go to the core of the problem. And I think EDA—and Chester Straub is right on the mark—you have got to make your Federal financing programs more flexible. We have gotten tremendous help from EDA to develop loan funds, but they really ought to have the authority to do loan guarantees and other kinds of mechanisms, like loan loss reserve funds whose purpose is to leverage private sector finance. That is the key. And we see no reason why the Federal Government could not do that and possibly try to get their feet into the whole secondary market area. Our defense firms badly need this help. We are developing some pilots with SBA to find State resources with them on Long Island to see if we can fill that gap, but I do not think we are going to

make it without additional Federal support in the form of EDA or SBA special guarantees. So those are just a few of the highlights.

Mr. HINCHEY. Dennis, thank you. Your point about the top-down approach of the Federal Government has so often taken is I think right on target. But I want you to know that we are making some progress in that regard. I am reminded by staff that the EDA Re-authorization bill which has passed the House has within it a specific provision which requires the kind of coordination and cooperation that you are talking about, so these changes are beginning at least to take place.

Our next witness is Mr. Glenn Carter who is the director of the Tioga County Economic Development and Planning.

STATEMENT OF GLENN CARTER, DIRECTOR, TIOGA COUNTY ECONOMIC DEVELOPMENT AND PLANNING

Mr. CARTER. Thank you, Congressman Hinchey and officials of the EDA and DOD for coming to the Southern Tier of New York to perform this opportunity of testifying before you on this extremely important subject.

One year ago an international economic consulting firm that Brian spoke to, Economic Research Associates, delivered their report on the EDA funded 15 months study, concluded that Tioga County, New York, and surrounding counties are eligible for the Title XI funding due to sudden and severe economic dislocation. To date, 13 months later, with the exception of the recent ARPA-NAP award, not \$1 has been made available to assist our economically depressed area which is suffering primarily from DOD cutbacks.

The present economic development system is broken and needs major repair. A quick response economic development delivery system is badly needed. Since industry creates jobs, we in government at the county, State, and Federal level needs to understand industry's problems and assist them in their competitiveness issues. The formation of the Advanced Resource Project Agency—the ARPA—and the Technology Reinvestment Project, TRP as spoken to earlier, are significant steps in the right direction.

A new paradigm to economic development is essential, where industry takes the lead role and forms partnerships with government and universities to regain global competitiveness in commercial markets. Incentives should be provided to businesses by government to optimize industry's agility, core competency development, productivity, quality, modernization, and work force utilization. By that I am speaking to training and managing change.

Incentives would be provided to universities to develop in-plant industry competitiveness programs focusing particularly on manufacturing processes and product development cycles that was spoken to earlier. This emphasis is needed since technology development is very costly to industry, it changes rapidly and is easily duplicated by our foreign competitors, as we have experienced in the past. Therefore, assistance is needed to help U.S. industries embed the technology into products much quicker than what we have seen, and instead of meeting requirements, even be driving with demands.

Antitrust legislation also needs to be modified to reflect global competitiveness of the 21st century. Existing legislation restricts

competitiveness of U.S. industry by limiting joint venture opportunities. The Pacific Rim and EEC countries provide product development subsidies that make it extremely difficult for U.S. companies to compete on a level playing field. United States financial institutions need to compete with foreign banks through equity relationships with businesses. High risk, front-end financial assistance is also badly needed for small startup companies. Enhancements to the Federal Community Reinvestment Act are needed to improve the quality of life of communities by providing independently managed revolving fund pools to help high risk entrepreneurs in startup ventures.

Educational institutions, business, and labor groups need to prepare our work force, beginning with team building in kindergarten on through college and into the work place in self-directed work team development. Churches, community groups, labor organizations need to focus on family unit counseling for dual working and single working parents, and for certified child care. And what I am saying here is all—everybody needs to get involved in economic revitalization. Cooperative extension should also assist economic development, the emphasis on transferring direction from university classrooms into small and medium businesses, as they have done so effectively in agriculture.

In closing, our country needs a very clear industrial policy; at best today it is laissez-faire. We all need to work together to make us economically secure. Our country is the greatest, and I am confident with government, industry, and education working together we are up to the task. Thank you.

[The prepared statement of Mr. Carter can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Mr. Carter.

And next—now we will hear from Ms. Kay Adams, executive director, UnIPEG.

STATEMENT OF KAY ADAMS, EXECUTIVE DIRECTOR, UnIPEG

Ms. ADAMS. Chairman Kanjorski, I have submitted remarks for review, and will briefly summarize a few of the items I would like to highlight in those remarks.

UnIPEG has been fortunate to receive a Federal TRP or Technology Reinvestment Partnership funding, and through this create a Manufacturing Extension Partnership Program, which is truly an example of a Federal, State, and local partnership. UnIPEG will be able to use that funding, through our organization, assistance to defense industries as well as the other, suffering, subcontracting industries in our region to help them become more competitive in the global marketplace of today.

We are truly a university/industry/public partnership for economic growth, which makes up the word UnIPEG, which becomes the name that we use. We have been in existence as a private non-profit since 1989, and our activities have been funded and supported by the State of New York out of the Science and Technology Foundation Program. This particular program has allowed us to become part of the service to industry deployment side of New York State for Technology Development Assistance and Industrial Effec-

tiveness Program and now the Manufacturing Extension Partnership Program.

As part of what we call the New York MEP Program, Unipeg will provide a wide range of technical and business solutions resulting in what we believe will be long term, tangible benefits to small manufacturing customers. The specific goals will include the improvement of financial results for our customers and our clients. We would like to see them have above average customer satisfaction with our programs, and in the long range we hope to delight our customer base with our services.

You have heard from Fred Paris and Dennis Allee about our economic activity and what we have suffered in the way of downsizing in our region, and I do not think there is a need to repeat them at this point because you do have those numbers. But I would like to emphasize one specific piece, and that is, that roughly one in five high paying manufacturing jobs has disappeared from our region since September 1988. We find that has been very discouraging to the industries that are part of our economic base.

Unipeg, which as I indicated, has an industry led board of 25 members plus—we have 35 members that are industries—and we anticipate that this board and our industries will be participating in both the delivery of our strategy plan and in the development of what we perceive to be the strategy providing for these limited services.

Our identified target population has been developed from approximately 896 manufacturing companies, and out of that base we have 122 defense dependent companies. That number may seem like it is large, but in New York State we are the second largest defense dependent area. And these 122 defense dependent companies employ 23,722 workers, and they also generate over \$26 billion in revenue. And since these companies are what we consider to be the base of our services provision group, they are going to be our first target group to help within this first project year.

If you have reviewed New York State Department of Economic Development strategy, you will see that we have an abundance of excellent regional resources that we can work with. We intend to use these regional resources to match industry needs from the university, or industry, or public partners.

We have worked over the last several years through the NY State Department of Economic Development economic regional strategy group to identify these partner organizations, and to understand exactly what they can supply to us and exactly how we can service but not duplicate, activities still forward to making this a stronger entity through the use of these existing resources.

New York State has been a very successful State in utilizing these Federal resources because we have had the benefit of having a very well-defined university/industry program through the New York State Science and Technology Foundation. An example of the foundations programs are the Center for Advanced Technology Program. Alfred University, which is one of our Center for Advanced Technologies universities in glass; Cornell University, which has the Center for Advanced Technology in biotechnology. We also have Binghamton University, which is the Center for Advanced Technology in electronic packaging. Through these programs, those

three universities are creating a strong research and technology base. NYS also has an abundance of community colleges and a base of other very capable colleges, other resources that UniPEG can draw upon our programs. We do not intend to duplicate, we intend to utilize.

We have begun to survey the industries. We have identified a lot of the issues that they feel are very important to them. We intend to use this as part of our strategy for implementation of this program and development of how that strategy is going to interface with the partners that we have identified through the universities, colleges, the industries, and our board. Putting together that strategy plan has become a very momentous task, but one that is going to be completed very expeditiously as our target start is within the next 30 days to identify that process and move forward.

Results of what we found today I thought might interest you because it emphasizes things that have been addressed by several of our previous speakers. New markets for existing products; needing to improve profitability; new profits for existing technologies. And that again speaks to Dr. Van Atta's dual-use technology. Quality management systems and strategic planning, which has become a very major factor in identifying how a defense dependent company might begin turn around and become a very successful commercialized company.

We have also found that two specific targets to be issues that are first on the industries and our agendas. First is marketing efforts, second is technical and management services. We are identifying our program to meet these needs. I would be very glad to share with you our final strategy plan which will be ready in 30 days. We have broken it down into four blocks that we consider to be of equal importance: Analyze block, development block, the compete block, and the growth block. And we feel that all companies will be able to be assisted through one of these programs in a long-term comprehensive manner, where UniPEG will address all the company's needs and no longer look at a company in terms of just fixing one specific problem, but going in and actually working with the company on a long term basis, and being part of that company's total growth and total move forward into success.

We thank the subcommittee and we thank all of you for listening, and specifically would like to thank Mr. Hinchey for all of the assistance that has come to us through these beneficial programs and what we see is a way of helping industries become very successful in the future. I would like to close by thanking the subcommittee for allowing me to present these remarks.

[The prepared statement of Ms. Adams can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Ms. Adams.

And now we will hear from Mr. Jeff Brooks, Chair of the Commercial Competitiveness Council, Binghamton University.

STATEMENT OF JEFF BROOKS, CHAIR, COMMERCIAL COMPETITIVENESS COUNCIL, BINGHAMTON UNIVERSITY

Mr. BROOKS. Thank you, Mr. Chairman, Congressman Hinchey, and thank you very much for this very public forum which—in which it is implicit, I think, the cooperation at the regional, State,

and Federal level that is embodied in so many of the programs that we see in the community today.

You have heard brief mention of our regional strategy first by Brian Monroe, then by Fred Paris and others. What they did not tell you is that we have had a regional strategy here for at least a decade. We did our previous regional strategy in 1983. That strategy had in it seven major components. Over a 7-year period we were able to implement all except one of those components, and the last one I think we are putting in place now.

The objective at that time was based on a realization that our economy was very fragile, and was hinged on some very specific areas of manufacturing, and particularly high technology and defense. We recognized that as being somewhat dangerous, and therefore we put in place some agencies and programs that we thought would be beneficial for delivering a mechanism to transgress to something else. One of the agencies we put in place was the one Kay Adams serves now, is the very successful Unipeg agency. What that means is that a strategy, in itself, or a plan is not sufficient to guarantee a success, because the numbers that Fred gave you indicate that our economy is not as healthy as it was at that time, and what has seemed important in that first strategy has become urgent today.

Our strategy does, however, give us a roadmap, as Brian mentioned, to get to the future. And as others have mentioned, it is hinged on the fact that industry is going to give us leadership and guidance in how those specific initiatives will be rolled out in the region. The projects that we have put in place so far, our first initiatives, have largely been responsive to our most urgent needs, and that is the needs to place our workers and to do some worker training to prepare our workers for what we think is a very changed environment.

I would like to mention two of those programs, but I particularly want to stress that our strategy is cohesive. The programs that you will see in the strategy—and I think there are some 50 or so initiatives in there—they hang together and they are based one upon the other, and they are based on the foundation of our previous regional strategy. So to not fund certain areas would be to weaken the entire package.

Two of the programs that I want to call your attention to are our Alliance for Manufacturing Competitiveness, which is a collaborative effort between four area community colleges: Broome, Cayuga, Corning, Tompkins-Cortland, and Binghamton University. And the alliance was designed to provide the Southern Tier manufacturing firms with quality training programs essential for competitiveness in a highly coordinated fashion. It is an attempt to direct our efforts at upgrading our work force, recognizing that the future will largely be based on the ability to compete on an information and knowledge base.

The second program, and one which has received a lot of publicity, is the Center for Commercial Competitiveness at Binghamton University. It is a program which is a pilot program. It is very unique. It was directed at the concept of taking displaced workers, largely from the defense industry, people with professional skills, and giving them more advanced skills in the areas of agility and

in teams, to allow them to be more competitive, and potentially, through some entrepreneurial training, to develop their own companies, their own careers, and their own jobs.

The first pilot program—and that is a program that was supported by money from the State and Federal level—the first program had a class of 58 people, and it was a 1-year pilot. At the end of the first year 34 people have graduated from that program, and 86 percent of the people who were in the program currently have jobs or are involved in some entrepreneurial project of their own. It is a program that I think was unique. It certainly did not roll out exactly as we foresaw it, but it was changed along the way to make a success, and we think that it offers great potential, not only for this region but also for other regions of the country in preparing workers for what we think is a very changed paradigm and a very different way of doing business in the future.

My remarks—my written remarks are embodied in the text that Fred Paris has given you. I would like to close by saying that we are looking forward to an extended partnership, but it has to be led by industry. It has to be a complete partnership of all the members of the region in order to restore our competitive advantage. And I want to thank you very much for hosting this forum which allows us once again to focus our interest and the interest of all those groups on our mutual need. Thank you.

Chairman KANJORSKI. Thank you very much, Mr. Brooks.

And now Dr. Morris Budin, professor, Urban Planning, Binghamton University. Doctor.

STATEMENT OF MORRIS BUDIN, PROFESSOR EMERITUS, URBAN PLANNING, BINGHAMTON UNIVERSITY

Mr. BUDIN. I will provide a brief review of some of the aspects of the Broome County economy which I cannot focus upon in great detail. The population of Broome County has been declining since 1970, a pattern that is expected to continue due to outmigration of younger and middle-aged job seekers, and the high percentage of elderly persons that live here now. Binghamton has experienced the most serious decline; slower rates are present in Johnson City, Endicott, and Vestal. Areas outside of the urbanized centers have generally grown slightly.

Employment trends in this area were positive from 1975 to 1988, but have declined rapidly thereafter. The dominant manufacturing sector suffered the most serious collapse since 1988 due to layoffs of large numbers of managers and lower and higher skill levels of employees. The only employment growth sectors since 1975 are retailing, health, social services, education, and State government. Very slow growth has occurred in construction and wholesaling. I emphasize these because I have heard none of these aspects discussed by anyone else in presentation thus far; it has all been about the revival of industry.

Housing conditions are closely related to poverty levels. Recent estimates indicate that about 12 to 15 percent of units in the county require replacement now or over the coming decade. A large proportion would require some form of subsidies. And my estimates in my recent studies, and prior ones indicate that we have about

9,000 to 12,000 dwelling units in this county that require such services.

The commercial sector is going through a revolution as more large malls have developed in Vestal and the town of Union. The downtowns of Binghamton, Johnson City, and Endicott have been absolutely decimated, and many of the traditional "mom and pop" stores spread through the area are now being driven out. Recently, the commercial strips and older malls have experienced widespread failures.

The end result of economic deterioration are blighted neighborhoods, empty factory structures, polluted lots, and increased crime. What will be the future—what will the future be like unless major actions are taken? There is no evidence that the Broome County area will experience a significant recovery unless communities, the State, and the Federal Government act.

There is no evidence that the manufacturing sector of this area can recover its prior high levels of employment. The pattern of declining employment in most industries, even when outputs have been expanding, is evidently strong and persistent over the last three decades. And this goes far outside of this region. It applies to over 160 major groupings of industry throughout the United States. Rapid expansion of labor saving capital, new developments in management organizations, growth of competition in traditional and now new high-tech growth areas, have reduced available jobs. United States industry faces competition with foreign countries. Also the relocation of firms from the United States to lower cost areas, and the fostering of new industries by foreign governments are some of the reasons for the decline in employment in manufacturing in our country. Broome County feels the pressures on the computer and communications industry, its former major manufacturing employers.

Finally, I believe it is important to indicate that our unemployment conditions are far worse than the data released by our government on unemployment rates. Methodologies used to derive estimates of these rates of unemployment have been seriously flawed for years, and are further flawed by the massive downsizings in industry never considered by the statisticians when these methods were developed. The offers of payments for early retirements distort estimates in the size of the labor force, as well as the number of unemployed.

Now I go on to what policy should be adopted for the county. You will be surprised, I hope. The summary of suggestions provided are based on specific needs and resource capabilities of the area. I have given details in the various appendices to this report.

The government sector will provide the lion's share of new job opportunities. The strength will be in the social services and subsectors that include hospitals, medical services, geriatrics, nursing homes, and other human services. Nearly half of the occupations in this sector is expected to experience very rapid growth, and another 38 percent will probably have slower growth. No other sector or subsector is expected to grow as rapidly.

However, this growth will depend upon Federal legislation and adequate financing by governments. The demand will be there, enhanced by an aging population and by opening the services to more

middle and lower income families who could not afford them without government insurance. I am assuming we will have a developed medical insurance program passed shortly, I hope.

Education is expected to be the second most important growth subsector. Again, the demand will be present but the supply will depend on government expenditures. Over three-quarters of the occupations will expand rapidly or somewhat if financial resources are available. I am talking about education at all levels.

Housing: The region needs a broad array of new housing programs if it is to expand into new fields to replace some more traditional employment opportunities. Housing for moderate- and low-income families is essential. The need for new structures and for rehabilitation is evident. The Southern Tier also has its homeless and hungry people who need shelter.

A project for moderate low-income families—that is, incomes between \$12,000 and \$18,000 a year—to own their own homes is being studied at the present time by myself and others. The program would probably require a few relatively small subsidies:

Number one: The city must provide vacant lots at nominal prices.

Number two: The Federal Government might cover the cost of clearing and preparing such lots for use.

Number three: The city might arrange for tax abatements that decline over time to these homeowners.

Four: The State might provide a fixed subsidy for construction.

And five: Banks might provide a sliding scale of mortgage rates that start low but move up to market rates levels over time.

Other projects that would generate many jobs are in flood controls, relocation of homes from out of the floodplain, waste control and disposition, reforestation, and the upgrading of public buildings. This list is long, and nearly all the programs require government funding.

The sum total of changes is an evolution of the Southern Tier from a manufacturing center dominated by electronics, computers, and simulators, to a center for education, health services, and special programs for the aging. We have all these demands and we have the resources if we can get Federal assistance. If funds are made available, the construction group could be revived by major housing programs. Clearly, policy must be directed toward increasing employment of health professionals, educators, environment managers, and specialists in waste management.

Finally, I would like to comment on "workfare" and welfare, which has become a critical element. We must get rid of the invidious term "workfare." Unemployment is unemployment, so the program must be a reemployment program for all persons. We must stop thinking about unemployment as being short term, seasonal, or cyclical. Our job solutions must be designated in terms of long-term secular unemployment that is structural.

We must accept the fact that solutions are not cheap, simple, nor immediate. Our search for solutions must focus on what must be done to increase the number of productive jobs, not just "make work" jobs.

And by the way, the Federal Government has recently proposed "make work" jobs in the Defense Program, which we probably need like a hole in the head in some of these cases. And the most inter-

esting one was the recent consideration —I do not know if it has died or not—to start building a new submarine which we had declared was unnecessary just a few weeks before that. The "workfare" program or this new reemployment program must emphasize productivity, not punishment of those peoples who are active within it.

The specific recommendations: Where possible, training programs must be linked to job opportunities that are available. Jobs must be significant and permanent, with opportunities for advancement. At the same time the rules for hiring, promotion, or dismissal must be the same as those in the public or private sectors elsewhere. Job opportunities must be expanded in the private sector as well as the public. The private sector provides opportunities to meet social needs often neglected or postponed in our society. Many of these projects can provide and should provide long-term employment opportunities. All of the projects below are examples of activities that would strengthen our Nation: Housing subsidized programs, environment, production, flood control, land pollution control, air and water purification, waste collection, and disposition of hazardous and nonhazardous solid and recyclable waste.

Urban development must be broad enough to include recreation facilities, the construction of roads, bridges. It must include general education, specialized education, medicine, police, and care of the elderly. On-the-job apprenticeships may be arranged for limited periods; a share of the wages of these may be subsidies from the government. By the way, this is very popular in Germany and other countries. But only a small portion of a firm's labor force may be apprentices. And we should not use apprentices to replace permanent employees.

This proposal uses the structure and methods of the free market, something former "workfare" programs did not. It does not take advantage of the welfare applicant, but treats all employees similarly. It also increases the possibility of stimulating the employee to be more responsible on the job.

The role for the government is in the American tradition of providing the opportunities for the Nation to serve the development of industry as well as to solve some of our most deleterious problems that have continued to retard our progress. And I am sorry to say we have cast these out of our minds in the last decade and overlook them today. Thank you.

[The prepared statement of Mr. Budin can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Doctor.

Our next presenter will be Dr. Donald Dellow, president of Broome Community College. Doctor.

STATEMENT OF DONALD DELLOW, PRESIDENT, BROOME COMMUNITY COLLEGE

Mr. DELLOW. Thank you very much, Congressman Kanjorski, Congressman Hinckey. Thank you for coming to Binghamton to solicit our views on the economic future of this region.

Broome Community College has played a role in the development of the work force in this region for nearly 50 years now. We are coming up on our 50th year anniversary very soon. Many individ-

uals have talked about the trends in this area, and some of the programs that are very encouraging that have brought about a great deal of cooperation. I think in my 6 years at Binghamton I am more encouraged now by the cooperative efforts of different groups and different levels of government than I have been up to this point. I think it took very difficult times to get us to begin talking to each other and realize that we had to stand together to survive some of the difficulties in our region.

I would like to address a couple of problems that I am beginning to see that are barriers to individuals who need to come back to get retraining, because as has been indicated many times here, there have been a lot of individuals in this region who have lost their jobs. And Broome Community College has graduates in most of these industries. These individuals need job retraining.

As many of you know, over the last several years in community colleges the nontraditional student has increased in numbers drastically. We have had individuals coming back who have lost their jobs, we had individuals who had been on welfare, we had some very creative programs that brought back men and women who needed to get into the work force, were very effective. We had part-time individuals who were coming to school at night and on the weekends, that employers were paying some of the tuition. And these individuals were growing very rapidly. In many of our classes you found the average age was 30 years old, and some of our classes in the health sciences we had more than half the class who had bachelor's degrees or master's degrees. We have had individuals in our Health Science Programs that have doctorates. Individuals came back to get retrained.

Well, I think this year—and I think it is probably more accentuated in the Northeast, but I think we are going to see it around the country—this trend of nontraditional students is going to change very drastically. We tend to monitor different types of admissions that we have at the college, and last year we had 950 students that we considered nontraditional students. And this—for this fall the number looks more like 650. It is more than a third drop in that group of students alone. Now, we are increasing in the young students because the birth trends are going in our direction, but it is very disturbing when you see that large a change. That indicates there is some drastic problems out there.

Now there are many reasons for that. There is less discretionary spending because of our economy. But I think there are a number of Federal initiatives that have hurt us individually at the community college level, not only here but around the country.

The first that I would like to draw your attention to is the Trade Readjustment Act. In the past we used to have anywhere from probably 100 to 200 students who came to the college as a result of the Trade Adjustment Act. As I understand it, industries that had to downsize because of international competition, individuals who were displaced from their jobs could come back to the college, receive unemployment benefits, and also have their educational expenses paid for. And, apparently, in this last year the Trade Readjustment Act was reauthorized, and the wording of the funding has not been worked out, so we do not have individuals who are coming back to the community college now to get that retraining. I do not

believe they are going anyplace. Maybe they are—some individuals are able to pay on their own, but basically I think a lot of people are not able to do that. So we have a large number of individuals out there who have fallen through the cracks.

These were good employees, employees who were tried and true in the industries in our region, around the country. And it was a good opportunity to take advantage of that talent and that experience, and we have apparently lost that. I would appreciate if perhaps we could look into the status of the Trade Readjustment Act to determine whether or not that can be put on line and we can get individuals coming back into community colleges and university for additional training. I suspect a number of the students who are not there this year are a result of this situation.

A second barrier that higher education in general is experiencing at community colleges perhaps more than others has to do with the tax law this past year. With reauthorization of the tax law, the tax deduction status of expenses that employers were paying for their employees' education are no longer tax deductible. When individuals would come to the college and take courses, the employer could reimburse tuition expenses and that was a tax deduction. That is no longer the case. That was left out of the tax law this past year. I think we are seeing the impact of that right now; I suspect that some companies are spending less. We know that small employers in this region are not reimbursing as much of the student's tuition as they used to. So this is one little change in the tax law. Each year the community colleges have tried to fight with this change to keep it there, to help business and industry get the tax deduction for training as needed. I suspect this has contributed also to the fact that we are going to see less students at the community college in this nontraditional age group.

A third barrier that I am beginning to see—and I agree with Dr. Budin—we are beginning to say, "Let us just get people into jobs, low paying jobs. They may be nonproductive. But get people off welfare." And, unfortunately, the tendency then is to downplay longer term training programs. And we see it in the Department of Social Services here, locally at the State level, less interest in bringing people back in to get a skill to go into nursing or radiological technology or become a dental hygiene assistant. Those are good productive jobs, they are professionals, individuals can earn a good salary. And I am afraid right now we see a tendency to say, "Well, let us not fund some of those programs. Let us just get people in low paying jobs." And I really do not think that that is going to help us develop a more competitive work force. I think we have got to do some of that, for sure, to get individuals back into jobs, but please do not sacrifice funding for those programs that will provide the longer term training to make a world class work force. Flipping more hamburgers will not get us out of the mess we are in.

I encourage you to support initiatives in Congress such as the "school to work" transition bill that will support students, young and old, who are going on into lengthier programs. We are working very diligently to provide programs that transition students from high schools into apprenticeship programs, into programs at the community college, trying to inform young people about the new

professions, the jobs that they should be going into for the future. We enjoy your support on these programs. You have in the past. I would encourage you to continue to support programs that fund the training initiatives. And I think we have heard that several times around this table.

In closing, I would ask that you look at a couple of these Federal programs, the Tax Readjustment Act and the tax law, to see if there is a way that in this next year we can readdress those issues so that we are again supporting individuals coming back to community colleges, retraining and going out and being useful, productive citizens. Thank you very much. Thank you for coming to Binghamton.

[The prepared statement of Mr. Dellow can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Doctor.

And now we will have Prof. Che-Yu Li, director, Electronic Packaging Program, Cornell University.

STATEMENT OF CHE-YU LI, DIRECTOR, ELECTRONIC PACKAGING PROGRAM, CORNELL UNIVERSITY

Mr. LI. Chairman Kanjorski and Congressman Hinchey, my personal research interest is in the field of electronic packaging. Since 1985 Cornell has further been building an extensive interdisciplinary research program in this field.

Electronic packaging provides the physical infrastructure required to assemble and integrate microelectronic systems. As such, it touches upon many manufactured products that contain microelectronic controls and sensors. And packages represent a vital part of computer and telecommunications products.

Specifically, the package supplies the electric power to run semiconductor chips, remove the heat generated, and provides interconnects for information input and output.

The Electronic Packaging Program at Cornell is currently supported by major U.S. corporations, U.S. industry consortium, the National Science Foundation, and the State of New York. The mission of the program is to perform free competitive research in order to enhance the competitiveness of U.S. industry.

From my personal view, the economy of the Southern Tier, like that of many other regions in the United States, is creating interest by both the defense downsizing and the transition to an information economy. That very important point has not been mentioned too much by the other witness.

For most Americans the transition to the new economy will mean opportunities for jobs and prosperity. But some and many will lose or have lost their jobs as companies reorganize their business and manufacturing operations to take advantage of the new development in the information economy or technology. These displaced workers will add substantially to the pool already created by the defense downsizing.

A strategy for job development and economic growth in the Southern Tier is to invest in information technology in order to maximize opportunities brought by the information economy. As mentioned by Kay Adams and Mr. Van Atta, we have already a strong base of technology in the region, especially in information

technology represented by major corporations such as IBM, Xerox, Kodak, and Corning, all in leadership positions in their respective technologies, as well as a large number of small companies.

Another part of our technological base is represented by three research universities: Cornell, Binghamton, and Alfred. Located within easy driving distance from each other, these universities have made strong efforts to develop working relationships with local industry and among themselves. The infrastructure it has provided should permit effective leverage of Federal programs to enhance the startup of new businesses, and the growth of existing ones in the region.

To further strengthen the infrastructure in electronic packaging we have formed recently the Southern Tier network of electronic packaging facilities. This network includes the facilities at Binghamton University, Cornell University, and IBM-Endicott, offering a comprehensive collection of sophisticated equipment and technical expertise not readily available to a typical small or midsize business. We believe, with this base already in existence and the infrastructure we have, Federal programs such as the Technology Reinvestment project, the Advanced Technology Program, and those of the Small Business Administration could be of great benefit to this region. Their support would permit a significant expansion and acceleration of a range of ongoing projects currently supported by industry and State of New York. We were, therefore, actively seeking the guidance of these agencies regarding participation in these programs. Thank you.

[The prepared statement of Mr. Li can be found in the appendix.]
Chairman KANJORSKI. Thank you very much, Dr. Li.

Mr. Frank C. Meyer, vice president and CFO, Loral Federal Systems-Owego.

STATEMENT OF FRANK C. MEYER, VICE PRESIDENT AND CFO, LORAL FEDERAL SYSTEMS-OWEGO

Mr. MEYER. We have been part of the industrial base of the Southern Tier for about 35 years; 34½ of that as part of IBM. We were sold to Loral earlier this year, and it is been a very successful transition.

We have been primarily a defense contractor throughout all of our existence. And most of the things I have heard here today touch on us in one degree or another. Certainly, Dr. Van Atta's comments were—I think he was reading our strategic plan when he talked about what we are trying to do as a business. As we talk about each one of the other speakers, they touch upon the needs of us as an industrial entity in the Southern Tier. We have about 3,000 employees.

If you take a look at where we were 5 years ago, we were 100 percent dependent upon the Department of Defense of the United States. We had a business that was about a half a billion dollars a year; we had a high quality product; we had a well-trained work force. We, as everybody else in the defense electronics business, have undergone the dramatic shift that the end of the cold war has brought about, and we have faced all of the perils of work force revitalization, work force change and those other activities.

As we sit here today, our sales are about double what they were 5 years ago. We are getting our business from a combination of non-DOD activity (about 25 percent), better than a third of it comes from foreign investment, as Dr. Van Atta said, and the remainder of it comes from our base DOD business which we believe is a strong and vital part of our business profile and jobs that we contribute to the Southern Tier.

What we have found, I think, as we have looked at what it means in job creation and what it means to us in business growth, is that one has to reach out in all directions and touch many of the things that we are talking about here today. The defense business was geared solely to high-tech products that we manufactured ourselves. We had to break down all of our paradigms for providing everything ourselves. And now we have had to leverage our activity to include the integration of off-the-shelf commercial products.

Before I came here today, I participated in two major pricing activities which will be very important things for us in our business future. One was a radar processor for the Department of Defense. The basis of that radar processor was a power PC chip, not a chip that we developed ourselves.

A second bid was to integrate the postal facility in Singapore, where we would take advantage of the systems integration skills which we were able to develop as part of the LAMPS MMIII system, and now we are marketing that internationally with this systems integration skills. Those two things would have been unthought of 5 or 6 years ago for us. These are the kinds of transitions in industry we have had to go through. Are we good at it? No, we are still at the infant stages of doing it.

One of the things we are absolutely blessed with is having Dr. Perry in the job he is in today. We have in Dr. Perry somebody who is pushing acquisition reform—acquisition streamlining. We have directly approached Dr. Perry with the notion that we would be happy to act as a test bed for anything in acquisition reform that he would be wanting to foster. We acted as a partner with Naval Air Systems Command—both of us taking risk on either side as much as we possibly could—a year ago to streamline the acquisition process on the LAMPS Programs with the program. We were able to take the acquisition time and cut it by a third. That means dollar savings for both the government, which can be reapplied with the other kind of programs you are talking about here, and it also means savings for me as a defense contractor.

We presented again our activity on that and all of NAVAIR contracting about a week ago. But that kind of activity and risk-taking on the part of a contractor is part of the key, I think, in order to be able to preserve jobs and growth. The kind of activity we are looking at in the defense business itself, and the products we have for the Department of Defense, to be able to take those products and to be able to make them more useful.

The LAMPS helicopter is a perfect example of that, as we have been able to leverage the multimission capability of the LAMPS helicopter that we produce at Owego. And I want to thank Representative Hinchey for his help in some funding activity that supports the re-missioning of the LAMPS helicopter. We have been able to take advantage of a very successful platform that operates

at three times the reliability of the spec., and at one-third of its 1980's cost, and to be able to use that for other missions and take advantage of it and save money for the government, essentially. It is a very important program to Owego and it is important for us.

When you look at what we have been able to do in dual-use technology, it is primarily from a product point of view. What we have been able to find is that it goes far beyond that.

Many of the things the Department of Defense has been able to sponsor in the Advance Resource Project Agency—the ARPA activity—and the Technology Reinvestment activity has a direct benefit to commercial industry if they can just open their eyes to it. We have been able to take the same software algorithms that you use in electronic warfare, and be able to apply them to the postal service to identify smudged postal addresses and bar codes. Now, that is not product—again, it is not as exciting as a flat panel display—but that is the kind of thing that industry, in partnership with what Dr. Van Atta's talking about, and with the existing agencies in the government, we can lever together.

So if you ask me what my important things for you to carry away are: Dual-use encouragement, utilizing existing vehicles we have, using ARPA—using the Advanced Research Projects Agency—using the Technology Reinvestment Programs are absolutely critical to us to be able to do the kind of procurement streamlining that is a win-win for both the government, it provides funds for many other things then, at the same time providing still a very strong defense. It is absolutely critical for us.

And there is one other thing that I think is something that we have not mentioned here, and that is some of the activity that takes sharing ideas like this, sharing process improvement and being able to disseminate that throughout our industry.

My focus as a businessman is my business first. And we have gotten exposed to sharing quite a bit through the Excelsior Program in the State of New York. If you are recognized in Excelsior, one of the obligations of that is to share where you have had successes and be able to disseminate those initiatives. And not that we have all the right ideas, but we may have a couple of right ones. We have been able to find that that is probably a key for sharing with other businesses. And that is one thing that you have to be able—as we bring all these ideas together—to get sunlight on them and to be able to let industrial organizations have the benefit of what we are talking about here today. We have, I think, a lot of opportunity in this Southern Tier. This has been characterized as a Valley of Opportunity. It can and still will be the Valley of Opportunity if we can work together. Thank you.

[The prepared statement of Mr. Meyer can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Mr. Meyer.

Dr. Michael Monroe, assistant professor, Ithaca College.

STATEMENT OF MICHAEL MONROE, ASSISTANT PROFESSOR, ITHACA COLLEGE

Mr. MONROE. Mr. Chairman, Congressman Hinchey, ladies and gentlemen, I am honored to have this opportunity to share with you some facts and thoughts on unemployment, poverty, and to

suggest a possible alleviating strategy. This is especially relevant here as local community developers face the loss of major industries.

Two serious problems facing the planners concerned with specific indigent community economic development are: First, how we attract productive enterprises; and second, who to attract. By "who," an example would be interdependent enterprises, so that money circulates within the depressed communities.

These "how" and "who" problems are not mutually exclusive. Unfortunately the latter is often ignored in the zeal to visibly address the former. By not focusing on the intersection of these domains, municipal development agencies increase the risk of attracting too many enterprises that consider only private costs and benefits. Consequently, they do little or nothing to support the socioeconomic development agenda of their host communities.

We have many examples of sincere efforts to increase local economic activities. But are community development objectives truly achieved? Are incomes raised so that poverty rates fall? Do poor communities become more self-reliant as a result of traditional development programs? Who is helped when poor people consume?

Too often the answers are not encouraging. Seeking the answers to these questions and designing effective procedures to foster development while correcting inequities is at the heart of a new program known as Operation SEED. The SEED acronym stands for Socioeconomic Empowerment through Democracy. This project responds to the concerns expressed above, and to the singular needs of communities like Binghamton and Elmira. Because of the time constraint I am limiting my remarks to Binghamton, specifically census tract 5 and census tracts 10 through 13.

In each of these tracts more than 38 percent of the households are below the poverty line. Binghamton, New York, is multiracial but predominantly white, with a high percentage of the city's residents in the low- to moderate-income category.

The 1990 census showed that almost 20 percent existed below the poverty line. That is, within Binghamton. Within the five tracts mentioned above neighborhood unemployment is relatively high, and participation in the labor force is relatively low, especially for African-American residents.

As expected, African-American, Asian, and Hispanic citizens are generally worse off in all categories of distress. However, as stated above, Binghamton has a low minority population. There are just over 53,000 residents within the central 18 census tracts. About 18 percent of whites are poor and over 42 percent of blacks. Furthermore, in some of the most distressed tracts there are many working poor earning just 25 percent more than the poverty line. In fact, in tract 11 over 70 percent of the residents exist at incomes below 125 percent of the poverty line.

Finally, more than 25 percent of the poor are children under 18. For more on this subject and the data see the printout on the Binghamton Operation SEED slide presentation of the packet that I have delivered here, and feel free, please, to contact me.

What can be done? "Business as usual" has not and will not work. In the 1990's and beyond, any realistic development program must not only establish economically viable enterprises and jobs,

but must simultaneously provide training while earning income; provide affordable day care; provide affordable health care, including substance abuse rehabilitation; address affordable housing needs, especially home ownership; provide a mechanism to remove people permanently from welfare; provide a mechanism to become financially self-sufficient; that is, not dependent on public monies; and this program must empower the citizens of the community it serves.

Operation SEED, designed to address the problems outlined above, has been in development since 1987. Now it is under license to the Westside Intercity Association—the WIA, that is—of Syracuse, New York. Additionally, interest has been expressed by the city of Syracuse, private citizens, members of the business community, and the assembly person who represents the district containing the WIA. In that packet you will find the SEED plan for the WIA; there are slide notes, slides, news articles, and letters from the people that I have mentioned above.

Now, I would like to turn to how this program works. The primary objective of Operation SEED is to create sustainable employment with equitable income levels for sizable numbers of targeted citizens. Given the lessons of indigent development history, this objective requires the establishment of integrated, community based enterprises. Additionally, for such ventures to initially survive, break even, and ultimately succeed, some type of long-term supporting mechanism, a socioeconomic infrastructure must be established. This infrastructure must address economic and social needs, the latter including day care facilities and substance abuse treatment to job-oriented halfway houses. And it must be controlled by and readily accessible to community residents.

Thus the offering by SEED is a formulation of both technical enterprise creation and strategic enterprise creation and maintenance, recommendations that are designed to operate in concert. The primary recommendations are centered around the methodology for establishing specially organized employee-owned firms and supporting organizations within the areas of greatest need. To achieve this requires addressing the dual problems of: First, preparing the indigent workers for the rigors of responsible enterprise ownership; and second, advancing the immediate opportunity to earn an income greater than that available through public maintenance programs or through participation in the informal economy, mainly criminal activities.

The cornerstone of the structure will be a for-profit holding, an incubation facility, and a nonprofit development corporation to be located, for example, within selected depressed areas which could include, of course, Binghamton. Over 3 to 4 years this organization is to establish, nurture, and develop a maximum of 12 enterprises per replicable incubator, each capable of employing, on average, 40 to 45 residents of the target area. In all, within any single facility this incubator will have the capacity to create about 500 jobs.

Within the incubator, embryonic corporations are to be initially organized as proprietary firms. They are to be wholly owned subsidiaries of the incubation facility. During a 3- to 4-year incubation period employees will receive literacy and skill training, and they will be taught the responsibilities of business ownership. When an

incubated company demonstrates that it complies with preset criteria for relocation within the target neighborhood, it is sold to its employees through an employee stock ownership plan. That is, an ESOP. Monies from these sales are used to finance new enterprises. At that time, SEED is self-sufficient, requiring little, if any, outside financial assistance.

The aforementioned strategy is proposed in three consecutive interdependent phases. Phase 1's function is the primary work required to launch the strategy. In toto, it should be completed within 18 weeks and costs about \$45,000. Phase 2 is the 15-month period required to establish the incubation and other facilities, and to implement the business plans for the first three firms, creating approximately 208 jobs. The cost, including enterprise investment, is \$2.9 million. This is \$13,942 per job. Assuming on average each job takes 2.25 people off the welfare roll—I never did like that 2.25, but this is an average—the cost is just under \$6,200 for each rehabilitated person. Finally, during phase 3, years 2 through 5, we expect to commence operation in firms 4 through 12.

To summarize, Operation SEED will perform an analysis of the Binghamton target to determine patterns of income and consumption by community residents. Second, initially Operation SEED will identify up to 100 potential business enterprises which will respond to community based consumer demand as reflected in patterns of income and consumption. Third, Operation SEED will establish a facility to launch at least three business enterprises by the end of phase 2, and three of these companies, one every 4 months, for each of the 3½ years of phase 3. These ventures are designed to provide permanent jobs within the specific areas, and eventually the target community at large.

Thus, the primary objective of a Binghamton Operation SEED Development project is to initiate a program within the target tracts. If successful, we aspire to assist in the establishment of this race and region neutral model, and target the areas wherever needed. This could be in upstate New York, Buffalo, or Syracuse, or in major and smaller cities in Pennsylvania or New York, communities in Wisconsin or California, in Florida or North Carolina or Ohio. And I am sure that some of the subcommittee persons could suggest targets in areas unknown to me, like communities in Iowa and Utah. Thank you.

[The prepared statement of Mr. Monroe can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Doctor.

Finally, Mr. Victor Tennant, president, Broome County Federation of Labor, AFL-CIO.

STATEMENT OF VICTOR TENNANT, PRESIDENT, BROOME COUNTY FEDERATION OF LABOR, AFL-CIO

Mr. TENNANT. Thank you, Mr. Chairman, Congressman Hinchey. In my remarks today I represent Everett J. Clarey, president of the New York State AFL-CIO.

Organized labor welcomes the chance to participate in these hearings. One of the biggest problems with economic development in this country is that all other interests—banks, real estate developers, organized business, and other special interests—are well

represented in the debates, but the voice of working people is barely heard at all.

In May 1993 New York State AFL-CIO published "Toward a New Economic Strategy for New York State." I have several copies on the table in the rear and here with me to submit for the subcommittee. It remains the most comprehensive and balanced labor vision of how the State economy should develop. It outlines a 12-point labor program to rebuild New York.

New York's revitalization depends chiefly on the resurgent private sector. Rebuild the port and trade rail system; restore the value of a high school diploma; raise the cost of corporations leaving New York; revive the construction industry and build affordable housing for working people first; make the State tax system more progressive, and end the State fiscal crisis.

With new economic development principles, restructure economic planning agencies and development authorities; make redevelopment of the manufacturing industry a top State priority; economic development for all, the most disadvantaged come first; treat culture as an industry in New York State; create a New York bank for jobs and economic development; and strengthen labor rights in New York City. I do not have time to develop all these proposals, but I do refer you to the document.

We must learn from history. Economic strategy matters. Government action at the Federal and State level can nurture manufacturing as part of the solution, not as the trickle-down advocates believe the main cause of the problem.

We ought to ponder the lessons, for example, of the link between transportation innovation and economic growth. New York rose to an economic preeminence because early in the 19th century visionary State officials shrewdly chose to build an Erie Canal. As a result, an unremarkable town on the eastern seaboard became a world metropolis, and much of upstate New York became an industrial powerhouse. The economic decline of New York is not inevitable, it is a result of unwise, failed economic strategy. A new strategy can make New York economy thrive again.

The main danger of a low-wage strategy is it is a race to the bottom. And if the subcommittee remembers nothing else of what I say today, remember this. Economic development, discussion, and policy have been dominated by banking and real estate interests and their representatives in government, academia, and the media. For example, "A Vision of New York's Future," a business council's pamphlet, outlines 10 economic goals for the State. The first four sound eerily similar to labor's classic goals—job growth, good paying jobs, population growth, better life for the poor—but the devil is in the details.

A closer look discloses the low-wage trickle-down thinking that is so deeply entrenched in big business and conservative economic development thinking. In the business council's analysis—and the business council is not the worst sinner in this respect—these are New York's economic ailments: Taxes are too high; business regulation is too severe; health costs and worker's compensation costs are excessive; product liability laws are too burdensome.

Organized labor seeks business support for our vision of economic development, but there is little possibility of a shared vision based

on a stale rehash of low-wage, low public service strategy, a staple of the corporate ideology of the 1980's.

In the 1980's, when the advocates of low-wage, low-skill strategy were running the U.S. economy the following changes were visited on the American people: The deindustrialization, deunionization trade policies that export U.S. jobs; lower real wages; restricted access to health care; plummeting public health standards; a plague of substance abuse; declining public services; a widening chasm of social inequality; grievous new inequities in the tax system; and greater insecurity for working people.

A low-wage strategy results in an economic race to the bottom. It is as if their—in their demented zeal to achieve a kind of competitiveness by dragging U.S. standards down to an ever lower level they forget to ask: Competitiveness for what? Competitiveness is only good if it means—by means of it people live better. An economy is not a thing, it is the way people are organized to meet their material needs.

Some say manufacturing does not matter much anymore; the information age, service economy, and cybernetics will relegate the American factory to a museum relic. Although this kind of thinking is not as popular as it used to be, it still floats around in some rarified intellectual and academic circles.

A study by the Economic Policy Institute reveals that the Nation's manufacturing sector is even more vital to the health of the economy than one might have thought. One study of employment multipliers in the U.S. economy found that the average U.S. manufacturing job generates 4½ times as many secondary jobs as the average retail job. It is said the same factory job generates almost three times as many secondary jobs as the typical personal and business service sector job.

There is little sense in dwelling on the complaints about the particular policies of the New York State Department of Economic Development, whose job is business recruitment and retention. The truth is, defensive and reactive policies that aspire only to slow the relentless decline in the State's industrial base have not worked, and they will not work. Nor will attempts to save New York industry company by company through seductive tax abatement and subsidy packages.

The New York State congressional delegation is not doing enough. It is time to organize and mobilize our 31-member New York State congressional delegation around the New York State economic agenda. Justice for New York, elements of the agenda would be.

Looking backward, New York suffered in the Reagan-Bush years. Senator Moynihan assesses the damage precisely: New York, in those 12 years, was cheated of \$136 billion. By virtue of that fact we argue a special consideration is due New York.

But though perhaps the most victimized, New York is not alone. Many States seek a—will seek a heightened level of aid from Washington. The New York delegation should localize aggressively and at the longstanding unfairness to our State, and win its share of new Federal monies the State deserves. Defeat Federal policies that hurt New York; fight for the ones that help New York. State political leaders must give a clearer lead to the congressional dele-

gation, as example, Governor Cuomo did on Federal policies that threaten the well-being of the State; for example, NAFTA.

The State congressional delegation must act cohesively and on a bipartisan basis. Some State delegations act as a unit to advance their State interests. With few exceptions, New York has not. This must change.

Enact Federal laws that curb "smokestack chasing." In this "no good deed goes unpunished" Federal system used by big business to divide rural, State, and local government, a State's virtue has become liabilities. New York suffers political discrimination because it has semicivilized—it has a semicivilized level of public services, a measure of social amenities, and it raises State revenue to pay for them. New Yorkers in Congress should be foremost in devoting their energies and imaginations in designing new laws that restrict or eliminate "beggar thy neighbor" interstate economic competition—"smokestack chasing"—of which there are all too many recent examples in this—in the region.

United States Secretary of Labor Robert Reich has been eloquent in denouncing wasteful, piratical interstate competition. The impact of "smokestack chasing" on the State treasuries can be ruinous. Texas paid \$30 million to hold onto a local auto plant; Kentucky's package for the Toyota plant totaled \$125 million; North Carolina offered a German manufacturer \$150 million to locate a plant in that State.

New York also chases skyscrapers as well as smokestacks, and has just paid a disgraceful \$40 million to hold Morgan Stanley. And in March 1993, CBS was added to the list for just under \$50 million.

Do not stop thinking about tomorrow. The whole delegation should follow Senator Moynihan's outstanding example and think strategically for New York. New York working people, who send people to Congress and pay their ample salaries, expect them to concentrate on the issues that affect New York's long-term economic future. For example, Candidate Clinton promised to develop a technology policy; he promised to redirect \$76 billion or so into a Federal research spending to spur industrial innovation. Areas to get stimulus include robotics, batteries, computer chips, "smart roads," biotechnology, machine tools, fiberoptic communication, mag-lift trains, computer networks, digital imaging, data storage, software sensors, artificial intelligence, computer aided manufacturing, demands composite materials. Governor Cuomo and the State Department of Economic Development are working on this. While who in the—who in our delegation is giving thought and attention and leadership to the question: How can New York benefit? We expect the State congressional district delegation to take the lead in this.

The Southern Tier has been especially devastated by the industrial restructuring and corporate downsizing for the last several years. According to the New York State Department of Labor market analysis for the Southern Tier region, during the 5 years that ended July 1993 the region's factories pared 15,100 high paying jobs as staff reductions occurred at IBM, CAU-Link, Martin Marietta, Endicott-Johnson, and Anthenall Corp., to name just a few. Additional cuts have occurred in many small companies.

The latest unemployment numbers I have for April 1994 not seasonally adjusted show a slight decline in Southern Tier unemployment rate from 6.9 to 5.5 percent. This is no recovery. Not everybody in Washington or Albany, as Mr. Paris noted, is aware that the Southern Tier region has the second highest concentration of defense procurement activity in New York State. The Southern Tier is close to second—is a close second to the Long Island region.

Organized labor has long advocated the Federal policymakers put in an economic conversion policy worthy of the name. State government should be pressing them to do just that. State government is also responsible for the transition to a civilian economy. True, the State government has fewer resources than Washington for cushioning blows of military cutbacks. A few years ago, at the worst moments of the recession, New York State could argue with some reason, it had no money. Albany now, evidently, has some money in its coffers, and a wiser—and wiser budget choices could have been made about its allocations than were made in the past legislative session. Thank you.

[The prepared statement of Mr. Tennant can be found in the appendix.]

Chairman KANJORSKI. Thank you very much, Mr. Tennant. We will take into consideration your lack of directness in several comments. [Laughter.]

I guess I am here to learn something, because recently in my congressional district we were fortunate enough to acquire an executive that was with IBM most recently and now is taking over a major effort in my district. And the other night when I was talking to him, I was comparing northeastern Pennsylvania to the Southern Tier of New York, and his comment was that he felt—that he was sorry for us in northeastern Pennsylvania because he felt we were about two stages behind the Southern Tier of New York. And, of course, I assured him, just generally, as I should have, that we are working on catching up, because we only felt the depression in northeastern Pennsylvania in the early 1950's, and we are about to make that recovery, and we are willing to look at what has happened in New York since 1988, and what has happened.

But it is impressive to hear that one out of five jobs has been lost since 1988. That is not a humorous thing. And I have had the occasion to sit as a worker's compensation referee some 20 years ago just below the Southern Tier, in Sara, Pennsylvania. So I came to this region on quite a regular basis, and it was known as the intellectual and modern technology center of the eastern part of the United States, without a doubt. And it is unfortunate that we share that sympathy, and see a turned back.

But on the other hand, to sit here and hear the wealth of ideas and the organizational process put into place. Pennsylvania, we are bragging about the Ben Franklin project, and here Unipeg is really a regional Ben Franklin project. What I particularly like is the awareness of the importance of long-term thought process, education, and how long and how penetrating it has to be to see the long-term turnaround.

We have an awareness—just the fact that we have such a good cross-section of everything from big industry, high-technology industry, education, leadership of the community and the State and

even the Federal Government. I wish we could assemble this in northeastern Pennsylvania, to tell you the truth. Maybe I am going to take you up on this idea for New York, Maurice, when you presented it to the subcommittee, and see if we cannot do something similar in Pennsylvania.

But the one thing that has struck me here, and I would like to get some of the response to that question: One is, you are in a second tier market, as I define it, and that a primary market being New York, Philadelphia, Washington, Boston, and San Francisco. That is, that you get flights into the area, easy communications, easy transportation. I am curious, what is the transportation—for instance, from Washington, DC to Wilkes Barre, Pennsylvania, it costs more than to fly from Washington to Frankfurt, Germany. Is that a similar problem here? So that I am acutely aware, as far as northeastern Pennsylvania being a secondary market, that that failure of transportation, both the schedule and the cost, sends high-tech industry that have to send executives and technicians around the country scurrying for the primary markets. And I cannot seem to get any attention in Washington on that factor.

And it is a subtle factor, but very important. There are an awful lot of people that, if they are going to make a capital investment, they are going to do it where they can move people in and out very quickly and not have to put up with the cost or the inconvenience of transportation. So there may be a role there that we have to do something in these secondary markets.

The other problem that I sense here that I wish I had in my district, but I do not: I do not have the sophistication of the industry you have up here. We are just trying to get into technology.

But I wonder, Dr. Van Atta, whether or not—we are meeting the challenge by having the reassertion of the reuse of economic development in the Defense Department, or should it be over here in the Economic Development Administration on the civilian side? We should maybe have a coordination with the Defense Department, but has the Defense Department usurped economic development? And I guess I would ask that question in light of: Watched TRP and ARPA put out funds. The thing which I notice most of all is those funds seem to go to the best grantsman, the corporations and the entities and the grant takers, who can polish and put a sophisticated application in, instead of sometimes the people that we have heard mentioned here, people that are looking for opportunity and a share of opportunity. Is that some basic prejudice that the Defense Department has in its being used to dealing with very large defense manufacturers and their high level of sophistication, as opposed to the average manufacturing based American? Maybe I will throw that first question to you, if I can.

Mr. VAN ATTA. Well, I guess the first thing I would say is that most of the real winners in the TRP were companies that demonstrated some of the real capabilities that I think were evidenced by some of the discussions here; companies like IBM, for example. IBM won more TRP awards than any other company.

Chairman KANJORSKI. Let me break in. We are glad IBM did, particularly if they are going to be in the Southern Tier of New York.

Mr. VAN ATTA. Right.

Chairman KANJORSKI. But, no—but I remember my father-in-law was a manufacturer in Florida. He used to tell me when he sent an executive out to buy a computer, if he sent a vice president instead of a president in one of the divisions, the vice president would always buy IBM. Because Apex, if it saved money but it did not work, that was his job. But if you bought IBM and it did not work it really did not matter, because he bought the best. And the attitude I am sort of asking you: Do you see—because I see about 80 percent of the TRP grants went out to the largest industries in America, and sometimes not disbursed across America to the greatest need areas. What are some of the—

Mr. VAN ATTA. Let me make two comments there. There is some concern that the TRP—in the way it was structured, particularly with the cost sharing and the kind of investments that are required to deal with some of the types of technologies, had I guess you would say a big company bias. But then again the Technology Reinvestment project is about taking technologies that are in the defense oriented companies or related defense applications, high-tech capabilities that have large-scale applications capabilities—for example, those dealings with telecommunications, high speed rail, large electronics manufacturing—and providing a capability to bring those into new, highly leveraged commercial applications.

Now, in my mind, the kind of companies that have the resources internally to do this kind of research and development, particularly working with the Department of Defense in getting those technologies developed—Motorola, for example, and IBMs and so forth—having the kind of ability to put together partnerships of a range of companies that could support them, probably requires at least some level of large scale corporation for most such developments.

But I want to make a point here, and I think this is an important point. We have talked about recreating, if you will, the U.S. economy, refocusing and using what we call technology reinvestment, in relationship, of course, to the Department of Defense here because this is a defense interest here. To meet our dual-use production capabilities, the TRP is creating the new potential system vendors of the future, to go back to your comment about Loral.

These new systems vendors of the future will be, then, the companies that will turn to the current companies that are the supply base, the subtler vendors, and provide jobs for them. It is my basic view that the small- and medium-sized companies that are having problems today in defense are not generally going to keep themselves afloat by jumping into new, exciting industries without having someone to supply. If you do not have someone to supply you are not a supplier. And their hope of becoming a first tier vendor in a new technology area related to that which they were supplying in the past I think is pretty darn remote.

So I think the concept of the TRP, in focusing on things like high speed rail, flat panel technologies, electronic multichip module packaging, and other kinds of electronic interconnect technologies for high speed computing, for example, is emphasizing technologies that are going to be put on the market largely by either existing or new system integrators. These integrators are going to be the Sun Microsystems, the Compaqs, the Motorolas, or Lorals of this

world. They will then provide, in that leveraging process we talked about, jobs and business for companies that currently are suppliers in a defense-unique market.

So, the point I am trying to make is, I think that the TRP is properly structured. However, the TRP has been architected with a long-term focus, and it clearly does not solve a near-term problem for a vendor who is a supplier of a defense systems vendor.

Chairman KANJORSKI. OK. I can understand that, and perhaps my charge of large corporation welfare—and I want to bring that out because we hear about public welfare and we hear about academic welfare, but very often do not have people challenging—this is a form we happen to have of corporate welfare.

Mr. VAN ATTA. I disagree with that.

Chairman KANJORSKI. OK. Well, let me go to something Mr. Tennant said, though. You are negotiating these support systems with very large corporations; the smaller and medium-sized corporations will be the suppliers that will keep up and step up high-technology jobs in the United States.

Now my question is: How are we protecting that those jobs will remain in the United States as opposed to after we make these tremendous commitment of finances, what is going to stop these various companies from going to Mexico, from going to South America, going to Asia where the wage level is significantly different, and the environmental standards and labor standards significantly different from the United States? Is the Labor Department and is the Department of Commerce standing in there and negotiating on behalf of the U.S. Government and the taxpayers and the workers of the United States to see that this capital is not going to flow out? And if it does, there is a recapture provision and certain rights to keep the benefit of that capital, not to augment and support foreign economies, but in fact create the jobs that we are all making this willing contribution for?

Mr. VAN ATTA. Given the fact that you are going to be in a global market, what you do not want to do is to put in rules and regulations and laws that: One, would discourage companies from even getting into the game; and two, would restrict them from really being in the global competitive environment.

Chairman KANJORSKI. That sounds like you are saying that you are not going to have contractual protections.

Mr. VAN ATTA. Generally speaking, there are specific requirements within TRP for work to be done in the United States.

Chairman KANJORSKI. On the initial TRP. But I am worried about the tremendous value product it is created after that.

Mr. VAN ATTA. Well,—

Chairman KANJORSKI. Let us make the assumption that, of course, if the U.S. Government did finance IBM, but IBM developed a chip with a computer that they were fortunate enough to create the great wealth for the Southern Tier over the 20 or 30 years before the down turn now. But would it not it have been—that was private capital, stayed here. But if it had been public capital, and if IBM had not stayed here and went to Asia, there would be a lot of disappointment if public money went, too.

Mr. VAN ATTA. Well, one of the questions that that raises is what would encourage them to go offshore. What we are finding is that,

as an example in the flat panel display area, they want on-shore production, the companies that are the potential consumers of flat panel displays for laptop computers, and so forth, are actively seeking on-shore, U.S. produced capabilities. And I think it is the business interest of those companies that will keep it on-shore.

I think that we have learned from our mistakes. United States business learned from its experience that if you become captive of foreign companies for key products, key technologies that are key components, and then those foreign vendors in fact are closely linked to your own competitive business base, that you are putting your business at risk. There are changes in strategy, changes in thought; in U.S. business.

Plus, we have learned from the example of Micron, for example, in making dynamic memories, that you can compete effectively in the labor and the technology and the price inputs with foreign companies in very, very price competitive markets. Motorola does a wonderful job of that, for example.

Chairman KANJORSKI. Maybe what I am—

Mr. VAN ATTA. So, the point of that, the business interest of these companies should itself keep technology in the United States unless we bring laws in that make it unattractive for them.

Chairman KANJORSKI. I guess what I am saying to you—and we will get off this point as soon as I end it—we are not subsidizing—directly taking taxpayers' money and giving it to large corporations with the hope that they will create jobs here at home and keep those jobs here at home. And we have no contractual obligation of recovery to see that that gets done. If that is the case, why should we have the Defense Department make these awards either through ARPA or through TRP or any other device? Why not just take the Tax Code, change it, and give the corporate advantage taxwise to the large corporations to do what they will with their money, give them the tax break, but then at least if they go off-shore they did it with their money, they did not do it with subsidized money.

There is something about the idea that as a Member of Congress, and representing—and I am sure Maurice has the same feeling—we want to help subsidize—have corporate welfare, if you will. That is what it is, whether it is with the electric car at General Motors and Chrysler and Ford. We are willing to take the heat from our constituents and not build the bridges and not build the houses, not build the hospitals and not provide the education, and direct this priority and this capital to these corporations, but we want some assurance that they are going to stay here and create the jobs. And if they do not, then it is better to say, "Well, then, you take the risk, guys. Do not come to us with a program."

Mr. VAN ATTA. Well, the Department of Defense wants a production base to be in the United States that it can rely on. And so when we do deal with companies when review proposals for the TRP Programs, for example, we look to see the viability of that team and the business plan in terms of production and capabilities in the United States. We cannot assure that. We cannot force people to say, "You will not move it—all of this somewhere else." We would hope that the fact that the businesses were developed here, the technology developed here, the production capabilities are here,

that the infrastructure is here, and therefore the interest to stay here, hopefully with new and enlightened tax laws and other kinds of things, will keep the businesses here. And what we are finding is that U.S. companies are starting to see some differences here. Maybe not as rapidly as our labor leader here would like to see, in terms of some of the ways they apply things, but—

Mr. TENNANT. Nowheres near as rapidly.

Mr. VAN ATTA. One of the other issues you have to raise is if you start putting various kinds of regulations and rules in as you are talking about, are you going to lose these companies even being interested in doing these kind of programs and projects. I have seen this in certain very specific applications—that you put that in. That means that you are restricting me so I cannot take this technology development and put it in a factory that will allow me to penetrate the markets in Korea, Japan, and so forth, because you are saying that I cannot produce this technology outside the United States and that would make me uncompetitive. What they want is the ability to do both of those.

Mr. BUDIN. May I break in for just a moment. Mr. Kanjorski, you made a very significant point a moment ago and then rushed passed it. It is a point I have been making in my presentation. We can spend the billions of dollars that we are now furnishing American corporations for defense, and so forth, we can spend it on community development, and that will generate local jobs, and they will not go off into other countries. They will remain here because you are building and developing the things that we produce locally. There is no leakage, or very little leakage out of the system.

Now, no one—and I think the gentleman who is speaking should admit to the honesty of it—the Japanese who have such a controlled economy have not been successful in stopping the leakage, extensive leakage in their major industries into other areas of Southeast Asia. First, they moved investments into South Korea, then they realized the Koreans were expanding and costs were rising so they have shifted down into Southeast Asia, Malaya area. Unemployment in Japan is serious, it is rising. They have a little protection by their lifetime employment for selected employees, but the Japanese economy is now hurt by the exporting of jobs.

And I am saying if our focus is to be upon jobs and our focus is to be upon our own internal development, then the Congress should look at spending its funds for development, which we have neglected for centuries in this country. We have areas of our cities that have not been rebuilt but are now crime hellholes.

In fact, that raises a question for the gentleman who has stressed more military spending: How many parts of the Motorola company are no longer in the United States?

Mr. VAN ATTA. Let me make a point on Motorola. Motorola produces its pagers and its cellular telephones in the United States and penetrates the Japanese market tremendously well. In order to be a global company, they obviously are going to set up production facilities in other parts of the world.

Mr. BUDIN. Thank you, you have just answered me.

Mr. VAN ATTA. However,—

Mr. BUDIN. They are going to set up their facilities elsewhere.

Mr. VAN ATTA. However, they have—

Mr. BUDIN. We pay for it here, and they set up there.

Mr. VAN ATTA. They have and will maintain major production facilities in the United States, are one of the leading, fastest growing companies—I am not plugging them as an individual company, but you asked—because, one, they are global; two, they do have a U.S. base; three, they depend upon that U.S. base and have flourished.

And I think if you look at Motorola as an example of the kind of company we want to develop and link to in our dual-use strategy, you will see that it is good for the United States, it will grow jobs, and it will be much faster growing jobs through that kind of mechanism than through the kind of other approaches we talked about.

Mr. TENNANT. Sir, what about the things that have been already gone. Motorola manufactures television sets, also, and various other forms of electrical appliances, and they are already gone. Just because they make a couple of widgets in the United States does not make them a hero. We want all their manufacturing back. You know, that is what we are talking about, import and export. And it is not an export if you go overseas and manufacture it. It just becomes another foreign company with an America name. We do not feel that that is the solution to the problem. If we loan companies that are—or we loan companies capital to get started, we feel there should be some penalty when they abandon this country. And that is exactly what—you know, we look at it in the labor movement as abandonment.

Mr. MEYER. Chairman, if—I had a thought earlier. If I could just rewind back to the initial thought about the role of the Department of Defense in job creation, particularly at the small business level. You talked about the grant, and it takes somebody who is good at writing to be able to win it, and I think we are good at writing. We write good proposals and we perform well in those.

But one of the programs in DOD that will be a gold mine, I think, for the small disadvantaged businesses particularly where we are talking about trying to get in and start minority ownership of small businesses, is the Mentor-Protege Program being sponsored by the Department of the Army. We participate in that. I have taken a small high software company, that has only 7 or 8 employees and act as a mentor to them, teaching them how to write their proposals so that they can get the grant. They also then act as my vendor so that I am building my small disadvantaged business base.

Chairman KANJORSKI. Do you get paid separately for that activity?

Mr. MEYER. What they are forming on this activity—on this particular one they are a vendor for me as a small disadvantaged business. I am trying to grow them. This particular piece of Mentor-Protege I do not get paid for. Is it good for me? Because I am building my subcontract base of viable subcontractors who can participate in the high-tech area, and this one is in integrated logistics support and in software. Less than 10 people.

But one of the Department of Defense programs that is in addition to, and it is a layer below what we are talking about here with the technology refined data. This is a small disadvantaged business, it is a mentor-protege where you take the large companies

who are getting a good pay from the government doing products, and you act as a mentor for a small disadvantaged business. It is a real gold mine for the future, because that is where jobs are created, in these small businesses. And I think it is a real positive program.

Chairman KANJORSKI. You say—I agree with that, but I really do not like the whole designation of minority businesses and set-asides and all that. I think as a beginning area that is not bad and has not been bad. But from everyone that I think is in the minority community that wants to move out and be part of the whole picture, and what we have to do is give them opportunity. And that means give them access, like everyone else has access. And it does not matter on whether they are a minority or not. Minority, in that regard, is also small- or medium-size business. Actually, I would be interested to look at what is going to come out of the technology of the Defense Department.

But in hearings—in past hearings of this subcommittee, with all of the expenditure for research and development we make in the country, what we find is that the Federal Government does not market that technology very well. In the last 5 years, \$75 billion a year in research and development, they have licensed out 314 licenses, for a grand total of \$36 million revenue. It is an embarrassment to admit it. It costs more, I think, to warehouse the paperwork than we have derived a thing.

Now, my answer to that is: Let us open up. Matter of fact, Maurice Hinckey is one of the guys in Congress that came to me and said, "Look, this would help my area if we allowed small entrepreneurial people and small businesses to get into this wealth of research and development the government owns." Right now it is down there, and you admit you write a program well.

Mr. MEYER. Right.

Chairman KANJORSKI. Or you know how to hire the "inside the beltway" consultants who can write a program well. But why should middle America and displaced America have to hire that type of consultant to get into these areas to get these grants.

Mr. MEYER. You have touched the Rosetta stone. To simplify the acquisition process, and simplify it for all, small, medium, and large, is absolutely a Rosetta stone for job creation. Because that does two things: It also cuts out expensive government, too. If I do not have to write a complicated proposal, I do not have to review a complicated proposal, and I do not think I would have to have very stringent procurement guidelines. I do not say that you throw all guidelines and we have no rules. But I think you have to make the procurement process available to the small business, too, and you simplify it. By the way, that also helps all of us, it helps big business, small business, medium-size business to be able—and that is why I was complimenting Dr. Perry, really, on his initiative by simplifying and streamlining the acquisition process. That is critical. That is absolutely critical to being able to turn things over quicker and get out of the paperwork mill.

Chairman KANJORSKI. Let me describe some of the problems. First of all, one of the reasons I am up here is because Congressman Hinckey has been a major part in recognizing this idea of the inventory we have down there, both in the Defense Department

and the civilian side of the government, of tremendous opportunities for technology transfer to create jobs. And we have put together a bill and he is an original cosponsor of it.

Second, I am running into my congressional district, and I sense it probably would be up here, too, there is a sort of an undertone of what Mr. Tennant was talking about, where almost we have had it up to here and we have had it too much, we are not going to take it anymore in terms of we are spending this \$75 billion in development.

Some congressional districts are not the research universities and centers of the world. Now, you do have Cornell up here, and that is a great complement. But when you look at MIT and Harvard and some of these institutions that get \$400 and \$500 million a year of Federal largess, my constituents pay that because they know in my district they do not have an MIT or a Harvard, and we never will. That is not going to be on the screen.

But we are looking at the Harvard and MITs of the world to spill out the technology, whether it is from the university or from the government, that business people can take to my district to create good jobs. That we are not carrying through with. But what I basically said to the doctor here is that, "Is that not mentality of the big corporation, the big entity, the good picture rather than the followthrough of where does that money ultimately go and where does that technology ultimately go?" And what I am suggesting is that we do not get it out to all America to create the jobs and the opportunities.

Soon most of America is going to say to their representatives, "We do not want to fund this," and then they are going to say, "Only fund the community development programs. Only fund the things that will directly create jobs, and let big business decide where to put their money and give them the tax writeoff," which takes the directive ability, and does hurt the dual-use program for defense because we do not know whether we will have the proper base if we get into a defense problem. Maurice, I would like you to jump in, if you would.

Mr. BUDIN. Mr. Chairman,——

Mr. HINCHEY. Well, I think it is a fascinating discussion, obviously, and one that is very important. One of the things that I hear from the people that I represent more and more, particularly in this kind of economic climate, is that they are tired of something that they sense, which is that we are increasingly subsidizing the economies of other countries around the world to the detriment of our own economy in one way or another. The most visible aspect of that, of course, is the \$60 billion trade deficit we have with the Japanese, but it is not the only one. There are a variety of others.

The discussion that was being held earlier a few minutes ago with regard to Motorola, as to whether Motorola is out of the country or in the country, one of the ways to probably resolve that would be to look at the Motorola trade deficit. What is the value of the components that Motorola exports from the United States as opposed to the value of the materials that Motorola manufactures elsewhere and imports into the United States. That, I think, might be the critical way to look at that question.

In any case, we have not done enough, I think, in terms of promoting and developing new technologies that are actually manufactured in the country. That has been our major problem. It is not that we have not been clever, it is not that we have not been intelligent or inventive and creative, we have been all of those things. It is just that for some reason American industry, in recent decades at least, has decided that it is either not going to enter a particular field from a manufacturing point of view, or if it does it is going to enter into it from the aspect of a foreign country and do it somewhere else outside of the United States.

And that is what I find very troubling with regard to a number of initiatives that we are currently involved in, in the context of what is called the global economy. And it makes me very nervous. It is one thing to be a proponent of the global economy if you are Costa Rica or Spain or Ireland or any number of other places. But I think you have to look at the global economy from a different perspective if you are the number one industrial power in the world, a continental power in nature, with a population approaching 300 million people, and the largest market in the world. I think that your perspective invariably has to be a little bit different. And I am not so sure that we have always had that different perspective, and I am not so sure that we have always been looking out for our own best interest.

While at the same time we want to be generous and sharing, we want other people in other parts of the world to have a strong economy and a rising standard of living, I am not so sure that in recent decades we have done enough to concentrate on the specific aspects of the American economy to ensure that our growth and development is consistent with expanding opportunity and expanding jobs. And that was among the points that I think Dick was making a little while ago.

Mr. CARTER. One of the points that is concerning me is, of course, the fact that we are not doing enough in manufacturing processes. You know, their time to market, the agility, those elements that once we had the technology. And I applaud the work in the dual—you know, your duality program in the Department of Defense. But when we look at our foreign competition and how effective they are in bringing products to market, it is a concern in—and I know there are some attempts to do that. And I agree also that we need to look at long-term initiatives, but we need to also put a very significant emphasis on short-term initiatives, as emphasized in putting people to work.

A lot of what I have heard today from—you know, from our members here at DOD leave me with a feeling that the major emphasis is on long-term initiative. Very important. But we need to see how those can be imbedded rapidly into the work force to put our people back to work now, to help us with our unemployment problem.

Mr. VAN ATTA. Let me comment, first of all, on the issue of the manufacturing end of business. Within the investment base of the government I do not think there is any investment more heavily focused than the Defense Department focus on transforming manufacturing. In fact, the new—or the Acting Under Secretary of Defense for Acquisition Technology, Noel Longmeier, himself, heads

up the Defense Manufacturing Council, the focus of which is, in fact, to incentivize, improve, and increase the attention toward lean manufacturing, rapid turnaround manufacturing, enterprise integration. Mike McGrath at ARPA has been heading up this program. They have made considerable efforts in trying to define this, finance it, and increase industry interest in it.

We want to make these processes available to commercial industry as much as possible, because that is what we want to leverage. So that is, in fact, an ongoing process. It is a change state for companies, and the government, in this case, is leading that change using new ideas, new technologies, and trying to find mechanisms, I guess you would say, to demonstrate and show the effects of that, so that business can then build upon it. DOD, in essence, will pay the upfront costs, as DOD has in so many other areas, because it is in our interest to see it work. So we are working in that area.

With regard to short term versus the long term, DOD's short-term interests are to assure that it can sustain a level of security and the industrial base that it needs for its current and immediate future in defense. And we do that basically through defense procurement. Somebody mentioned something about the submarine. Turns out it is cheaper to build another submarine than to mothball the submarine factory, and to keep jobs going. Turns out you try to mothball that factory—you mothball that factory—there is a very thorough study done by Rand on that—it costs more to mothball a factory—actually costs about the same to mothball a factory, but you get no submarine and you get no jobs. So we, in fact, kept the submarine factory going.

Now somebody could say, "Well, do not worry about future submarines and do not mothball the factory." That is our job, in national security, to make decisions as to whether or not it is a technology and a capability that we need to have available to us. So we do have a way—our best way of maintaining our near term interest is through our defense procurement, most of which is for very specifically identified technological and production needs.

Now, you know that procurement is smaller than it is been, but I think we would all agree that is right. We do not want to be spending the kind of money that we were spending against the Soviet Union for the kind of defense forces that we now need for this world, and we want to transform and move dollars out of the defense budget into other areas. And that is what is happening. Now, what we are trying to do is find the best ways of dealing with this transition area, and fortunately we have the Office of Economic Adjustment and we have the Department of Commerce to help do that.

It is not a perfect world. And I will say another thing, and that is: We did not get into this job 4 years ago. Some have said, "We have been at this in New York for 5 years, 4 years." This administration started 1 year ago, 1½ years ago now. And we have put in place and made movement toward changing things, I think at phenomenal pace, with good help from the Congress. Sometimes not as much help in some areas as we would like with acquisition reform. We need your help with acquisition reform. We have got to have that happen. And the obstacles making acquisition reform happen right now are on the Hill, not in the administration.

Chairman KANJORSKI. Doctor, I think that if we can establish a dialog between the Congress and the Defense Department on some of these things we can have great cooperation.

Mr. VAN ATTA. Well, I have enjoyed this session, and I have enjoyed the sessions I have had, individual sessions with some of your staff. And I am going up to Albany, New York, to talk about the flat panel display initiative here in—Monday. I would love to come visit your area and talk about the kinds of activities you have. These are all very important to us, and I think this is a very important activity.

One comment I will make regarding the universities, the research universities and the issue there: The Defense Department's funding for university research has been a tremendous job creator and an economy boost for this whole country. And I think Dr. Li was probably ready to say something about that. I hope when I—after I leave, you do, because the role that ARPA has played, for example, in creating the fantastic computer and telecommunications industry we have in this country today cannot be overstated. And that was through the research universities, through the MITs, the Stanfords, the Cornells, and the Penn States. So I want to make sure you understand that before I leave, and thank you for inviting me here.

Chairman KANJORSKI. We are going to excuse both the gentlemen from the Defense Department and from the Department of Commerce.

Mr. LI. Mr. Chairman, may I—

Chairman KANJORSKI. Go ahead.

Mr. LI. Add to his comments just a little bit?

Chairman KANJORSKI. If you will give us about 2 minutes. But they have to catch a plane, or else I am not sure what the duty is if they do not catch the plane.

Mr. LI. In a limited way we are trying to outreach to small and midsize business, already, as I stated in my testimony. And—but so far our effort has been funded by industry and State government only.

Chairman KANJORSKI. Yes. We are going to continue on, if you will. We are going to let these gentlemen go. Because I have a few observations, and I know Maurice does. But we will excuse you if—do you have a flight at the same time?

Mr. STRAUB. If I could just end with one thing.

Chairman KANJORSKI. Sure.

Mr. STRAUB. What is being done here in this region is a good example of the type of thing that EDA and the Federal Government needs to do more of, and that is involve all parties in the process. That is the concept of developing a competitive community economic base, which EDA is actively pursuing further. I commend the people in the Binghamton area, and more importantly, commend this subcommittee and Congressman Hinchey for prodding us in that direction. I am looking forward to working with both of you individually and as a committee in pursuing these goals, as well as with the people in the Binghamton community.

Mr. HINCHEY. Thank you very much.

One thing I would like to ask the people on the panel is simply this. We are interested in being helpful. I mean, that is what we

are really here for. And Paul has come up here because he is very interested in being helpful. And I was attracted to him shortly after I went down there, because I became aware of the kind of initiatives he was engaged in, which seemed to fit right into the kinds of things that I was trying to do. As a result, we have been working very, very effectively together.

But we need to know, OK, from you, Dr. Monroe, Dr. Dellow, Frank Meyer, from all of you here what we can do to be more helpful as from—as you see it from your point of view. Glenn.

Ms. ADAMS. Could I respond to that a second?

Mr. HINCHEY. Please, yes.

Ms. ADAMS. I wish Mr. Kanjorski was not as successful in his employment hiring practices.

Chairman KANJORSKI. In what?

Ms. ADAMS. I wish you were not as successful at your employment hiring practices.

Mr. HINCHEY. He stole somebody?

Ms. ADAMS. Yes.

Chairman KANJORSKI. Who did I steal?

Ms. ADAMS. Mike Ziak.

Chairman KANJORSKI. Oh. So you know. Now you know. [Laughter.]

No, let me say something, though. Mike is going to be a great addition. But, let me tell you, Mike is returning home. That is where he is from.

We have a natural relationship in northeastern Pennsylvania and the Southern Tier of New York because a lot of our people are very similar and we have located from the various places. But I want to point out that something that we are suffering from in northeastern Pennsylvania and all over Pennsylvania, and you are suffering from up here in the northern tier that we do not appreciate, and it is unfortunate the defense people have left. But, you know, with the downsizing—there is an industrial downsizing that is occurring, but that is going to get handled in a reasonable period of time because you have good private sector people out there that are thinking it through. And just looking at your organizational structure, you are well on your way to that picture.

What are we going to do, though, with California and Texas and States like that, that had a tremendous infrastructure investment made by the United States for the defense threat that is no longer there? That is, the bases that will be closing down. In sympathy to the lost employment, we in the Congress have sort of gone along with the idea that, "Well, the community can keep the base, can keep the equipment, can keep the assets, and then go use it."

Now, what we are not realizing—and in an area like northeastern Pennsylvania we have never had that type of military base. So we do not have that potential world class industrial park. And, on the other hand, in the 1960's and the 1970's and 1980's, while we fought that cold war, a great deal of our tax money went to Washington, that went to California to build that military base. And they had great prosperity from the 1970's and the 1980's, and now the downturn, they are suffering from recession. But they are going to get the world class industrial parks for the next two and three decades.

So we got hit the first time because we were not in the boom of the defense industry. And now we are going to get hit the second time and the worst time, because we will not have the physical facilities to compete with the industrial world class—industry park—world class industrial parks of the future. And Germany is in the same boat.

And we are not—we do not seem to be addressing that as a strategy in the country. We are sort of going along. And I appreciate your attention to short-term unemployment, and that is important particularly for here, because you do not have the industrial base. You are not going to attract people to the Southern Tier of New York because you have this airfield and the 2-mile airport and hangar facilities and communication facilities around the world, and utility systems and infrastructure systems that can compete around the world. You do not have it. We do not have it in Pennsylvania. We did not build it. California has it.

So I fear that when we get through the short-term jolt of unemployment as a result of the defense turndown, then these States that had the boom of the 1980's as a result of defense are going to suck up—like that great sucking sound that Mr. Perot talked about—all the new modern plants and industries and technology that is going to be built. Why would they come to Binghamton or to Wilkes Barre when they can go to Monterey or Sacramento or any of these areas in California, move into a cost-free, 100,000 200,000, 500,000 square foot building with an airport outside, and they do not pay a penny for any of it. Everything is there. Now, that is what I am worried about.

Ms. ADAMS. Congressman Kanjorski, I think one of the reasons we feel so compelled in our region is to address the issue. But I have to disagree with the structure of the TRP outline that you discussed, in saying that the large companies were receiving a disproportionate piece, slightly unfairly. For our region I am very pleased that we happen to have the capability to write and be successful at winning those types of TRPs, because that feeds our second tier level of the subcontractors to those industries.

If there is anything that is going to attract industry to my region, from my perspective, it is going to be a longstanding Loral presence within my region. And the capability to feed and fund that type of an industry here is very key to our long-term survival of our second tier defense subcontractors.

Chairman KANJORSKI. I more than appreciate that, and I am not saying that from the standpoint that we would do anything on national policy to change that. What I am saying is that we probably have to start thinking out to get some balance. For instance, I am not against MIT getting \$450 million a year research and development money. They are well worth it. Or Stanford. The only problem is, some small—

Mr. HINCHEY. Or Cornell.

Chairman KANJORSKI. Or Cornell. OK, right. But some small community colleges are picking up a burden to retrain that work force for the next 10, 20 years, and they are being shut out of Federal largesse entirely because we are making the election to do it on the research side, but we are not doing it on the infrastructure side.

Ms. ADAMS. Now, I agree with you in that perspective, and I can see that some of the assistance you might provide to us is additional funding into the STTRPs, because that process does fund into the small businesses.

Chairman KANJORSKI. I have to compliment New York State, and then, Mr. Tennant, I have to get back in defense of the Governor and some of your erstwhile congressional delegation here in New York. You will be amazed to know that the Commonwealth of Pennsylvania is 6 percent of the American population, and there are 59 federally funded national laboratories in the United States. You will also be amazed to know that Pennsylvania does not have one. And New York has a considerable amount, and much to my envy.

But I think, you see, those are the important areas. I think those of us that are in leadership positions politically, and whether it be on the legislative side, executive side, or whether it be on the Federal level or the State level, have not all the time been in sync because of how things happen. And we are not really looking out.

For instance, you know, I compliment New York for those national laboratories, because that is your future generation of technology that research and development is doing. That is your guarantee of long-term job success. But you have just heard me, though, do an autopsy on Pennsylvania. No national laboratories, no world class industrial parks of physical facilities that we will be able to use for industrial development, an elderly work force, a relatively untrained and uneducated, and the facilities not there to educate the work force. You can see the great fear we, as a delegation, have in Pennsylvania. So, I mean, I think you should stay on—but you are really far ahead in some instances of these areas. And the worst problem is, what we all have to do is feel sorry for California, but watch those little devils. [Laughter.]

Mr. TENNANT. That is kind of the point is, you know, we have to look at things statewide. You know, we live here in the Southern Tier, and everything is Southern Tier, Southern Tier. But I do not want the Southern Tier to be the best set of teeth on the starving dog, because when the dog dies the teeth go with it.

Mr. BUDIN. He has got a good point there, because if you look at other parts of New York State—and, by the way, the high condition of the Southern Tier only dates back 30 or 40 years. When I moved into the area Binghamton was at the bottom of all of the labor market in terms of they were at the top at unemployment and bottom with wages.

Now, if you pass by Binghamton and go to other parts of the State you will find duplicates of what you have in Pennsylvania. I invite you to come along the St. Lawrence, and you have city or village or city, town where they have age distributions that are closer to St. Petersburg, Florida, and some other areas in the State because of the outmigration of the young. They have wages that are far lower.

And one of the interesting problems that I have not heard mentioned here. When some of these industries are converted to non-military production but find themselves in areas with poor infrastructures, poor housing, poor social services they leave areas to go

elsewhere. The cities that lose them fall into permanent, or long-term depressions.

We have many such areas with low levels of development that just struggle along. All you have to do is look at some place like Rome, New York, Watertown, and all of those in the north areas of the State.

If you take a look at—around the State, and you remove Albany, parts of New York City, Long Island any longer, you have serious problems to contend with that I am afraid and unhappy that they are like your problems in Pennsylvania.

So that is why I like the idea we must redevelop these areas by spending internally. You get the biggest bang for the buck, and you get a future built. And that is important. And I think that should be the focus of government. Not the support of a set of industries. Let the industries worry for themselves. Make credit available to them; if they want to use it, fine. But do not pump them full of money. Spend your money on developing the other areas of the country. Lots of places to develop, when you come right down to it, and develop the social structure, the educational structure, and always look at development in terms of the particular needs and resources of the area.

If you bother to re-read my paper and look at the appendices, I emphasize the development of a geriatrics industry for this area. Why? We have got a hell of a lot of old people and they need services. And there are lots of old people in surrounding areas. And they do not get all these necessary services. So, therefore, there is an industry there. It may not be an industry that we want to turn to readily, but it is an industry. And it keeps the dollars at home. They circulate locally.

And contrary to what the gentleman from the Defense Department said, years ago we used to think, "Well, we are going to have high-tech develop here, and that will sweep us ahead of the rest of the world." We have discovered that high-tech industries, make the ideas. But where were the goods produced? In Bangalor, India, right now. There are certain kinds of computer chips being produced that are sold here.

Mr. HINCHEY. Well, Morris, I think there is a lot of value in what you say. But the other—there is another part of the equation, and the other part of the equation is manufacturing. You cannot survive—no economy can survive without a strong manufacturing sector. The conventional wisdom a few years ago that was floating around was that the United States was somehow now becoming a service economy, we did not have to worry about it. There were going to be good service jobs, and manufacturing was on its way out. I think that more and more people are beginning to understand that that really is not a viable principle of beliefs.

So I think that fundamentally, in addition to what you are saying about investment in communities and infrastructure, both of which I believe is very, very important, the other side of the coin is to make sure that you are on the cutting edge of the technologies that are going to produce the wealth and the manufacturing jobs of tomorrow. Such as flat panel displays; such as the kinds of compact chip developed that we are seeing here at IBM-Endicott and elsewhere. The kind of things that have to be on the cutting edge

of new technology, because that is where the good jobs really are in the future.

Mr. BUDIN. But there are good jobs in the area I referred to, as well. For example, there is a tremendous area of computerized prostheses for aged persons, and other cutting-edge jobs in the various areas I have identified. I am still insistent that we do not need another submarine today that by the time they build it will be outmoded. It will take them 10 years to get it off the drawing board and produce it, and by then that submarine is going to be out of date, as they admit. Now, I mean, if we just want to build pyramids for the sake of building pyramids, fine, we will join the Egyptians, and you know where they are right now.

Chairman KANJORSKI. They won the war.

Mr. CARTER. May I make one comment in response to Congressman Hinchey's comments. One that comes to my mind, Congressman, is business retention. If there is money, Federal money being expended to subsidize companies in the South to accept Northeast companies, whether they be Pennsylvania or New York, I think we need to look at that, see what that is doing to our own local States.

And so, looking at business retention monies available to our State, both Pennsylvania and New York State, to focus on retaining our existing businesses with our technologies and in the area of expansion as well, to help these existing businesses expand so that we can retain this and build on what we have and use the money and the technology effectively that already is here. And I have heard a lot about and a concern about moving. We need to think about retaining and expanding.

Chairman KANJORSKI. Yes, if I could just give you a little insight in that. Most recently we have passed in the House the Authorization bill for the Economic Development Administration, and a major part of that is a new direction toward making funds available for existing businesses and new businesses in new ways. But even when we talk of that, the reason why it is always important to call on the defense people with the civilian side, the Commerce Department. The two Departments are hardly equal. The Commerce Department of the United States is a midget among a giant. And sometimes what I fear is that the civilian side of economic development has been moving through the Defense Department because that is where the funds are. And there is a certain mentality in the Defense Department that size is important, any price goes, that the definition of remission is somewhat different from our—the chief way we do it on the civilian side, where money does count, we give you only what you need, nothing more, and are very cost conscious.

And I think that what we are doing—I mean, we can take the entire budget, economic development budget of the United States is less than—well, it is not enough to build an airplane, a B-1. It is not enough to build a—it is about one-tenth of a Trident submarine. And that is a year's budget. So, I mean, that is what we are dealing with in proportions in government. So if we could move either some agreements from the Defense Department to more readily participate with the civilian side, we could help out.

Now, on the other hand, we do not want to injure the dual use and the conversion area which is very important to the Southern

Tier. We recognize that. We are not going to do that. But over the course of a period of time we want to make sure that these funds do not disappear. And I think we can accomplish that.

We are going to have to wrap up shortly, and since I am in my good friend, Mr. Hinchey's district, I would certainly like you, Maurice, to take the last several remaining minutes here and wrap up. I think it has certainly helped me, and I am much more informed, and I am going to be counting on I think one of the most progressive young Congressmen I have met, and certainly—

Mr. HINCHEY. Thank you for saying young. [Laughter.]

Mr. MONROE. Excuse me, Mr. Chairman. I was wondering if I might just make one comment in response to Congressman Hinchey's and also to your statement about minority set-asides. Just want to make a statement about that.

With less than one-half of 1 percent of businesses owned in the United States by African-Americans, that when you have set-asides you are not talking about any control. Normally, the way that works is, that you have majority companies hiring a few contractors. So, but that is something we can discuss at some other time.

Chairman KANJORSKI. I have some theories I think will be helpful on—because really right now that is a very unsuccessful program.

Mr. MONROE. It is. It is. Quite right.

Congressman Hinchey, when you were asked what we could—what you could do. A couple of things: Not only support, like your staff has given, and so forth, to looking at programs like this, programs of empowerment. The President has, just as you know, passed the—or you have passed a bill and it was signed in February on empowerment zones at depressed communities.

But to look at models like SEED which are empowerment, to assist in directing people to where funds are, to assist in cutting through the red tape, and to look at legislation, Congressmen, that could be helpful.

And we need people from welfare on a model of the Child Assistance Program. CAP, as you know, has one major drawback. That is, you have to—for single women you have to get a support order. And this can be difficult. What about families that are together and poor people that want to work. If this takes 2 years, why cannot people be weaned off and still get maybe health care, and so forth. This would take legislation.

Mr. HINCHEY. Yes. Well, the passage of the National Health Care bill, of course, would go a long way toward achieving that objective. It would deal—it would make a major contribution to our efforts to deal with the problem of welfare, because that is one of the things that holds people in the grip of that—

Mr. MONROE. About 2002.

Mr. HINCHEY. Yes. Well, no, we have got to do it faster than that. But that is one of the things that holds people in the grip of welfare, fear of not having health care. You know, that is really what does it.

Well, I just want to say thank you to everyone. This has been a very, very helpful discussion. It is the kind of thing that obviously could go on for a long, long time. I think that as helpful as it has been, I think we have only begun to deal with some of these

important questions. A lot of things have been raised here today that could require a lot more detail.

Dr. Dellow talked about education and the need to continue some of the education programs that seem as though they are beginning to fade out, and to be creative about new education programs; the need for continuing education and long-term education. You are speaking right into the kinds of things that Bob Reich has been talking about, the Secretary of Labor; changing the unemployment structure in the country to a reemployment situation. I think, in fact, you used the phrase "reemployment" when you spoke awhile ago.

And what we have learned is that short-term training is—has very little value if you really intend to train someone for a job. What you really have to do is stick with that person and provide long-term training to be certain that they are equipped to enter the job market. And to its credit, that is what the administration is doing in Washington now. I think that that is one of the most important new initiatives that they have been talking about, and it fits right into a number of things that have been said here today.

Well, let me just say thank you to all of you for the contribution that you have made to the deliberations of this subcommittee. And Paul, thank you very much for coming up here, for being with us. I know that this will feed into the information that you are accumulating other places around the country, and we are going to see it in the form of legislation in the months and years ahead. Thanks very much.

Chairman KANJORSKI. Well, I want to thank you. And before I adjourn I just want to reiterate again that some of the major contributions in legislation that our subcommittee has made this year are a direct result of the tremendous input of Congressman Hinchey. I congratulate his constituents for being wise enough to send an able legislator to Washington, and he certainly has stimulated me.

Thank you all very much. I am just envious that I have to leave the great Southern Tier of New York and go to northeastern Pennsylvania where we are still two steps behind you in economic development. Thank you very much.

[Whereupon, at 4:20 p.m., the hearing was adjourned.]



A P P E N D I X

July 8, 1994

Opening Statement of

Hon. Paul E. Kanjorski, Chairman

Subcommittee on Economic Growth & Credit Formation

Committee on Banking, Finance & Urban Affairs

U.S. House of Representatives

at the Field Hearing on

Job Development and the Economic Future of the Southern Tier

Friday, July 8, 1994

Binghamton, New York

Today, the House Subcommittee on Economic Growth and Credit Formation holds the eighth in its series of field hearings on credit availability, job creation and economic growth. Today's hearing will focus on the needs of New York's Southern Tier, particularly Broome County, Tompkins County, and Tioga County. Much of what we learn today will also address the needs of Ulster County to the east.

Today's hearing is the first the Subcommittee has held in New York and I would like to thank my colleague, Congressman Maurice Hinchey, for inviting the Subcommittee to the Southern Tier to hold this hearing. As a Congressman who represents Northeastern Pennsylvania, I feel a particular affinity for my neighbors to the north in New York's Southern Tier. The area I represent suffers from many of the same economic problems as the Southern Tier. We know the disadvantages which accrue from being a "secondary market" instead of a "primary market" like New York City or Philadelphia. As a result both regions must develop a capacity to grow from within.

The people of the Southern Tier, particularly in the 26th Congressional District, were very fortunate to be represented for most of the past two decades by an extremely thoughtful, hard-working and admired Member of Congress, former Congressman Matt McHugh. Like Maurice Hinchey, I, too, succeeded a Member who served for several decades and who was a living legend in his district. As a result, I know how difficult it is for a new Congressman to live up to the high expectations and the standard of excellence set by his predecessor. I am pleased to report to the people of the 26th Congressional District that they have once again

chosen wisely. Maurice Hinchey has already made his mark as one of the most knowledgeable, determined, resourceful and respected Members of Congress in a very large freshman class.

What has particularly impressed me about Maurice Hinchey is that he is a firm believer that individuals can control their own destiny, and he has both a vision and a plan to build a better economic future for the Southern Tier. Job creation is clearly his top priority and he understands the many complex elements that must be part of any successful job creation strategy - from credit availability, regional cooperation and job training, to defense conversion, reindustrialization and infrastructure repair.

When my Subcommittee began work on legislation to create new jobs and businesses by promoting the transfer of emerging new technologies from government labs to the private sector, Congressman Hinchey was one of the first Members to understand its job creating potential. He offered constructive suggestions to improve the bill, and he was the single most active, vocal and persuasive advocate for the bill when it reached the House floor and was approved by a two-to-one bi-partisan margin.

Maurice asked me to hold this hearing in the Southern Tier, because he understands the importance of bringing together federal, state, and local officials, area business and labor leaders, academics and economic development experts, so that we can learn from each other.

All too often people view Congressional hearings as inquisitions. This hearing is meant instead to be a learning experience. Each participant brings a unique perspective to the problem before us of creating new jobs and economic prosperity in the Southern Tier, and areas like it across our nation. The advice Congressman Hinchey and I receive today will help us advise our colleagues in Congress on the steps we can take to increase job creation and promote sustained economic growth, both in the Southern Tier and across our nation.

Without objection, our witnesses' prepared statements will be submitted in full for the record of the hearing. After Congressman Hinchey has made his opening statement, I will ask each participant to identify themselves and then to summarize, in five minutes or less, the main points of their written statements. Once the participants are done with their opening statements, I want this to be a very free-flowing and open dialogue, where everyone feels comfortable to question or comment on the statements of others, even my own statements.

MAURICE D. HINCHEY
26TH DISTRICT NEW YORK

COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS

FINANCIAL INSTITUTIONS - SUPERVISION
CONSUMER CREDIT AND INSURANCE
GENERAL OVERSIGHT AND INVESTIGATIONS

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NATURAL RESOURCES

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STATEMENT OF CONGRESSMAN MAURICE D. HINCHEY

Before the Subcommittee on Economic Growth and Credit Formation

July 8, 1994

Mr. Chairman, I sincerely appreciate your kind words. I am also extremely grateful to you that the Subcommittee has chosen Binghamton as the site of today's hearing. I am anxious to hear the testimony of our impressive set of witnesses, and I have only a brief statement to make before we get down to business.

As we all know, the Southern Tier faces many important and complex economic challenges in the years ahead. I have just announced the results of my 1994 Questionnaire that was circulated throughout the 26th District, and it is clear that the future of the economy of the Southern Tier is on everyone's mind. 40% of those surveyed stated that they were not optimistic about their economic future, while only 35% felt optimistic. This outlook is a result of a local economy that has suffered greatly because of the cutbacks in national defense, the restructuring of major corporations, and the recent recession which has had a terrible impact particularly on the manufacturing sector of the American economy. I believe that the federal government must be doing more to create good, decent-paying jobs for the thousands that are out of work in our area.

The good news is that we are working hard to find solutions to these challenges, and this hearing marks an invaluable opportunity to explore some of the potential solutions. Many people had meaningful suggestions in my Questionnaire that I feel should be considered in Washington -- providing low-interest loans for businesses located in communities impacted by defense downsizing, expanding and improving job training programs, and a variety of other thoughtful suggestions. One of the most dramatic results of the survey is that about 75% of people responded supporting the Federal Technology

Commercialization Act sponsored by Chairman Kanjorski. This is a worthy tribute to your diligence, creativity, and understanding of the value of good jobs, Mr. Chairman. I was pleased to participate in the fight to get this legislation passed by the House, and will continue to work closely with you as we proceed to conference with the Senate.

Another issue that I know many of you are interested in is the transfer of ownership to the Broome County Industrial Development Agency of the Martin Marietta plant. This transfer has been approved by the full House of Representatives as part of the defense bill, and this week I have personally appealed to Senator Moynihan for his support. I am optimistic that this will become a reality before the end of the year.

These steps are only part of the solution for the economic challenges that we face here in the Southern Tier. I want to reaffirm what the Chairman said in his statement, that this is not an inquisition, it is a learning opportunity. We have assembled an impressive array of witnesses, as we have representatives from the federal, state, and local level as well as people from the business, academic, and labor communities. I look forward to the unique input of each participant.

Again, thank you Mr. Chairman for making the trip here today.

U.S. DEPARTMENT OF COMMERCE
ECONOMIC DEVELOPMENT ADMINISTRATION
TESTIMONY OF DEPUTY ASSISTANT SECRETARY
FOR PROGRAM SUPPORT

CHESTER J. STRAUB, JR.

HOUSE BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE
SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION

U.S. HOUSE OF REPRESENTATIVES
FRIDAY, JULY 8, 1994
BINGHAMTON, NEW YORK

CHAIRMAN KANJORSKI, CONGRESSMAN HINCHEY AND OTHER
DISTINGUISHED WITNESSES, LADIES AND GENTLEMEN, THANK
YOU FOR THIS OPPORTUNITY TO APPEAR BEFORE THE
SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION
TODAY AS WE FOCUS ON ECONOMIC CONVERSION AND JOB
CREATION, AND THE EFFORTS OF THE ECONOMIC DEVELOPMENT
ADMINISTRATION TO ASSIST AMERICAN COMMUNITIES ADJUST
TO THE NEEDS OF TODAY'S GLOBAL ECONOMY.

I COMMEND YOU FOR THE TIMELINESS OF THIS HEARING, MR.
CHAIRMAN. THE CHALLENGES FACING ECONOMICALLY
DISTRESSED AREAS AROUND THE UNITED STATES TODAY ARE
VASTLY DIFFERENT THEN THEY WERE JUST A FEW SHORT YEARS
AGO. WHERE THE LOCAL ECONOMIC DEVELOPMENT NEEDS OF

MANY OF AMERICA'S COMMUNITIES ONCE WAS PUBLIC WORKS AND INFRASTRUCTURE TO ENABLE ECONOMIC GROWTH, TODAY THESE SAME COMMUNITIES ARE FACED WITH INCREASED COMPETITION, BOTH DOMESTIC AND FOREIGN, AND CHANGES IN GOVERNMENTAL POLICIES, INCLUDING SHIFTS IN DEFENSE SPENDING AND AN INCREASED SENSITIVITY TO PROTECTION OF THE NATURAL ENVIRONMENT. THESE NEW CHALLENGES HAVE IMPACTED DRAMATICALLY ON AMERICA'S TRADITIONAL ECONOMIC BASE INDUSTRIES AND HAVE AFFECTED EVERY COMMUNITY IN THIS COUNTRY. AND WITH THESE NEW CHALLENGES COMES THE NEED FOR NEW APPROACHES AT THE LOCAL, STATE AND FEDERAL LEVELS TO GOVERNMENT'S ROLE IN SUPPORTING LOCAL ECONOMIC DEVELOPMENT AND PRIVATE SECTOR INVESTMENT.

IN RESPONDING TO THESE CHALLENGES THE CLINTON ADMINISTRATION HAS PURSUED A STRATEGY WHICH FURthers THE PARTNERSHIP OF GOVERNMENT AND AMERICAN INDUSTRY TO PROMOTE AMERICAN COMPETITIVENESS, ECONOMIC EXPANSION AND JOB CREATION. THIS PARTNERSHIP IS NOT JUST ONE WITH NATIONAL INDUSTRY, BUT ALSO ONE WITH AMERICA'S COMMUNITIES.

AT THE COMMUNITY LEVEL, FUTURE PROSPERITY IS INCREASINGLY A FUNCTION OF THE EFFECTIVENESS OF GOVERNMENT AND INDUSTRY WORKING TOGETHER TO MEET THE CHALLENGES OF ECONOMIC EXPANSION AND JOB CREATION AND TO TAKE ADVANTAGE OF THESE OPPORTUNITIES. THE DEPARTMENT OF COMMERCE, THROUGH THE ECONOMIC DEVELOPMENT ADMINISTRATION, IS COMMITTED TO ASSISTING COMMUNITIES MEET THE ECONOMIC DEVELOPMENT CHALLENGES OF TODAY AND TOMORROW.

AT EDA, WE ARE REDIRECTING OUR PROGRAMS AND THE TOOLS WHICH WE USE, WITH THE OBJECTIVE OF ENSURING THAT ECONOMICALLY DISTRESSED AREAS AND REGIONS OF THE UNITED STATES BENEFIT FROM THE NEW FEDERAL COMMITMENT TO PROMOTE AMERICA'S GLOBALLY COMPETITIVE, HIGH-GROWTH INDUSTRIES. SINCE ITS CREATION IN 1965, EDA HAS TARGETED ITS RESOURCES TO COMMUNITIES SUFFERING HIGH LEVELS OF ECONOMIC DISTRESS AND THIS MUST BE NO LESS THE CASE TODAY. AS THE FEDERAL GOVERNMENT SEEKS NEW WAYS TO ASSIST UNITED STATES INDUSTRY TO REMAIN GLOBALLY COMPETITIVE, EDA MUST USE INNOVATIVE NEW TOOLS TO ASSIST THOSE COMMUNITIES WHICH ARE OUTSIDE THE MAINSTREAM OF ECONOMIC GROWTH OR WHICH ARE IN

DANGER OF FALLING OUT OF THAT MAINSTREAM, TO RETAIN, CREATE AND GROW A COMPETITIVE ECONOMIC BASE FOR THE FUTURE.

THIS ECONOMIC CHANGE HAS AFFECTED EVERY COMMUNITY IN THIS COUNTRY. IT HAS UNDERMINED THE TRADITIONAL ECONOMIC BASE IN MANY COMMUNITIES AND HAS CREATED TREMENDOUS NEW ECONOMIC OPPORTUNITIES. IT HAS CAUSED A MASSIVE SHIFT IN THE TYPE AND LOCATION OF JOB OPPORTUNITIES, AND HAS PUT A NEW EMPHASIS ON EDUCATION AND TRAINING FOR THE JOBS IN THE EMERGING ECONOMY OF TOMORROW. IT HAS CREATED AN IMBALANCE WHICH CANNOT BE IGNORED; THAT MANY COMMUNITIES TRADITIONALLY IN THE ECONOMIC MAINSTREAM HAVE SUFFERED DRAMATICALLY OVER THE LAST GENERATION, WHILE NEW ECONOMIC OPPORTUNITIES HAVE TENDED TO EMERGE ELSEWHERE.

THIS ECONOMIC CHANGE HAS CREATED A NEW IMPERATIVE AT THE COMMUNITY LEVEL. EDA, OPERATING AT THE LOCAL LEVEL, ENSURES LOCAL COMMUNITY OWNERSHIP IN THE ECONOMIC DEVELOPMENT PROJECTS WHICH ITS FUNDS, AND ENHANCES BUSINESS FORMATION AND EXPANSION IN DISTRESSED COMMUNITIES. TO ACCOMPLISH THIS, EDA WORKS

TOWARDS CREATING (i) FINANCIAL INDUCEMENTS FOR THE GROWING, GLOBALLY COMPETITIVE INDUSTRIAL SECTORS TO INVEST IN OUR DISTRESSED COMMUNITIES, AND (ii) INSTITUTIONAL LINKAGES BETWEEN THE COMMUNITY LEADERSHIP AND THE BUSINESS LEADERSHIP WHOSE COMPANIES CAN FORM THE ECONOMIC BASE FOR THE FUTURE.

EDA HAS UNDERTAKEN TO MEET THESE NEW CHALLENGES. IT IS WORKING WITH COMMUNITIES TO ASSIST THE EXISTING AND THE EMERGING LOCAL INDUSTRIAL BASE TO MEET THE COMPETITIVE CHALLENGES OF TODAY AND TOMORROW.

NEW YORK STATE, WITH ITS VAST AND COMPLEX ECONOMY, PRESENT A PARTICULARLY DIFFICULT CHALLENGE, YET ALSO MANY OPPORTUNITIES. IN THE PAST YEAR ALONE EDA HAS PROVIDED APPROXIMATELY \$7.2 MILLION IN ECONOMIC ASSISTANCE GRANTS TO NEW YORK COMMUNITIES. THESE GRANTS HAVE RANGED FROM:

- * A \$600,000 GRANT TO THE WESTERN NEW YORK ECONOMIC DEVELOPMENT CORPORATION (FIVE COUNTIES IN THE BUFFALO AREA) TO PROVIDE TECHNICAL ASSISTANCE TO SUBCONTRACTORS AND

SUPPLIERS IN THE AUTOMOBILE PARTS INDUSTRY;

TO -

- * \$4.5 MILLION AWARDED TO THE NEW YORK STATE DEPARTMENT OF ECONOMIC DEVELOPMENT TO ASSIST THE DEFENSE ADJUSTMENT ACTIVITIES OF LONG ISLAND BASED AVIATION MANUFACTURES.

EDA IS CURRENTLY WORKING WITH LOCAL ORGANIZATIONS ON SEVERAL PROJECTS WHICH CAN GREATLY INCREASE THE COMPETITIVE ECONOMIC BASE OF NEW YORK'S COMMUNITIES.

THESE INCLUDE:

- * INFRASTRUCTURE DEVELOPMENT FOR INCUBATOR/BUSINESS ASSISTANCE CENTERS AT ULSTER COMMUNITY COLLEGE AND IN DUTCHESS COUNTY. THESE CENTERS WILL FOSTER THE DEVELOPMENT OF NEW, ADVANCED TECHNOLOGY BUSINESSES AND EXPANSION OF EXISTING BUSINESSES IN RESPONSE TO CUTBACKS IN IBM RESEARCH AND MANUFACTURING CONDUCTED IN THESE COUNTIES;

AND

- * TECHNICAL ASSISTANCE FOR SMALL BUSINESS IN

BROOME AND TIOGA COUNTIES TO ASSIST IN
ADJUSTING TO IBM/DEFENSE RELATED CUTBACKS.

THESE AND MANY OTHER PROJECTS IN NEW YORK STATE ARE EXAMPLES OF THE TRADITIONAL ACTIVITY OF EDA. THESE WILL CONTINUE TO BE IN DEMAND AND WILL CONTINUE TO BE AN IMPORTANT AND MAJOR PART OF EDA LOCAL ECONOMIC DEVELOPMENT EFFORTS, BUT IN ADDITION TO THE ALREADY FLEXIBLE ARRAY OF TOOLS AT ITS DISPOSAL, EDA NEEDS TO TAKE ADVANTAGE OTHER FORMS OF FINANCE ASSISTANCE.

FOR NEARLY TWO DECADES, EDA HAS PROVIDED GRANT FUNDING TO NOT-FOR-PROFIT AND PUBLIC INTERMEDIARIES IN ECONOMICALLY DISTRESSED COMMUNITIES ACROSS THIS COUNTRY TO ESTABLISH APPROXIMATELY 420 REVOLVING LOAN FUNDS. A TOTAL INVESTMENT OF APPROXIMATELY \$350 MILLION HAS LEVERAGED AN ESTIMATED PRIVATE INVESTMENT IN EXCESS OF \$1 BILLION AND CREATED 100,000 OR MORE JOBS.

THESE REVOLVING LOAN FUNDS HAVE OPERATED AT THE LOCAL LEVEL TO PROVIDE FLEXIBLE, SUBSIDIZED FINANCING TO BUSINESSES WHICH REPRESENT ECONOMIC DEVELOPMENT

PRIORITIES FOR LOCAL COMMUNITY LEADERSHIP. OUR STRONGEST REVOLVING LOAN FUNDS HAVE BUILT LINKAGES BETWEEN COMMUNITY LEADERSHIP AND BUSINESS LEADERSHIP IN THESE COMMUNITIES, WHICH HAVE AIDED IN STABILIZING THE ECONOMIC BASE AND WHICH HAVE HELPED TO PREPARE THESE COMMUNITIES TO MEET THE ECONOMIC CHALLENGES OF THE FUTURE.

IN GENERAL HOWEVER, THE REVOLVING LOAN FUNDS NEED TO BE MORE CLOSELY TIED TO NATIONAL PRIORITIES, AND HAVE SUFFERED FROM INSUFFICIENT FUNDING, LACK OF FLEXIBILITY OF AVAILABLE FINANCIAL INSTRUMENTS AND INSUFFICIENT LIQUIDITY OF THEIR DEBT INSTRUMENTS. IN THIS ADMINISTRATION, WE PROPOSE TO ADDRESS THESE ISSUES, BY LINKING THE REVOLVING LOAN STRUCTURE MORE INTO NATIONAL PRIORITIES, INCREASING FUNDING, PROVIDING MORE FLEXIBILITY AND ENHANCING THE LIQUIDITY OF THE DEBT INSTRUMENT HELD BY THE FUNDS.

IN ORDER TO INCREASE FINANCING AND FACILITATE LIQUIDITY OF REVOLVING LOAN DEBT INSTRUMENTS, EDA WILL NEED LOAN GUARANTEE AUTHORITY. LOAN GUARANTEES FOR ECONOMIC DEVELOPMENT ACTIVITIES IS A HIGH PRIORITY OF

THE CLINTON ADMINISTRATION.

AS AN ECONOMIC DEVELOPMENT TOOL, THE LOAN GUARANTEE PROGRAM WOULD BE A CATALYST TO ENCOURAGE AND ASSIST PRIVATE SECTOR INVESTMENT THAT WILL CREATE JOBS. EDA WOULD PROVIDE ASSISTANCE TO FINANCE EXISTING, EMERGING OR EXPANDING PRIVATE FIRMS WHICH HAVE BEEN IDENTIFIED AS LOCAL PRIORITIES UNDER A LOCAL ECONOMIC DEVELOPMENT STRATEGY. EDA LOAN GUARANTEES WOULD ENHANCE THE ABILITY OF THESE FIRMS TO OBTAIN THE INVESTMENT CAPITAL NECESSARY TO REMAIN OR TO BECOME MORE COMPETITIVE IN A GLOBAL ECONOMY, WHETHER STRUCTURED TO INDIVIDUAL PRIVATE SECTOR LOANS OR TO RECAPITALIZE EDA'S EXISTING NETWORK OF REVOLVING LOAN FUNDS. IN EITHER CASE, THE LOAN GUARANTEE WOULD BECOME A FLEXIBLE FINANCING TOOL THAT WOULD BE USED IN RISK SHARING ARRANGEMENTS TO ENHANCE COMMUNITY ECONOMIC DEVELOPMENT PRIORITIES THAT RESULT IN LONG-TERM HIGH GROWTH JOB OPPORTUNITIES IN DISTRESSED AREAS.

AS SEEN IN THIS STATE, THE ECONOMIC NEEDS OF LOCAL COMMUNITIES ARE AS VARIED AS THE COMMUNITIES THEMSELVES. THE FEDERAL GOVERNMENT CAN MOST

EFFECTIVELY ASSIST THESE COMMUNITIES THROUGH A PARTNERSHIP WITH PUBLIC AND BUSINESS LEADERSHIP WHICH LEVERAGES PRIVATE INVESTMENT MANY TIMES THE AMOUNT OF AVAILABLE FEDERAL FUNDS, EXPANDS BUSINESS ACTIVITY INVESTMENTS BY LOCAL INTERMEDIARIES AND ENHANCES PRIVATE LENDER PARTICIPATION IN COMMUNITY/ECONOMIC DEVELOPMENT.

THE ADMINISTRATION AND THE ECONOMIC DEVELOPMENT ADMINISTRATION ARE COMMITTED TO MEETING THESE CHALLENGES BY MAXIMIZING FEDERAL LEADERSHIP AND PARTICIPATION THROUGH EXISTING EDA PROGRAMS AND THESE EXPANDED FINANCING AUTHORITIES.

MR. CHAIRMAN AND CONGRESSMAN HINCHEY, I GREATLY APPRECIATE YOUR INVITATION TO TESTIFY TODAY AND I LOOK FORWARD TO WORKING WITH YOU AND THE SUBCOMMITTEE ON THESE IMPORTANT ISSUES.

TESTIMONYUNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION

"JOB DEVELOPMENT AND THE ECONOMIC FUTURE OF THE SOUTHERN TIER"

FIELD HEARING - BINGHAMTON, NEW YORK
JULY 8, 1994

New York State's nine county Southern Tier Region encompasses 7,185 square miles stretched along the New York-Pennsylvania border, spanning roughly 150 miles from east to west and roughly 50 miles from north to south and encompasses Broome, Chemung, Chenango, Delaware, Otsego, Schuyler, Steuben, Tioga, and Tompkins counties. Larger Southern Tier communities include Corning, Elmira, Ithaca, Binghamton, and Oneonta. In 1990, 731,041 people lived in the Region; population growth has been stagnant. The Region's economy supported 305,400 non-farm jobs in 1991. The Region's natural resources play a key role in the Southern Tier economy, underpinning its agricultural, forestry and tourism sectors.

The Southern Tier Region has been undergoing significant structural transition for more than a decade. The Region has the second highest concentration of Department of Defense-dependent manufacturing industries in New York State and ranks tenth highest in the nation. Cutbacks in the federal defense budget, coupled with corporate restructuring, trouble in the nation's manufacturing sector and the effects of the recession, have resulted in the loss of 19,200 manufacturing jobs since 1980.

In late 1990, the New York State Department of Economic Development (NYSDED) Southern Tier Regional Office organized a Task Force to address the factors causing the Region's severe economic distress. The Task Force identified the need to develop an economic adjustment strategy for the Region. The NYSDED Southern Tier Regional Office obtained funding for this study from the Department of Defense (DOD) Office of Economic Adjustment (OEA) and the U.S. Department of Commerce (DOC) Economic Development Administration's (EDA) Title IX Program. To underwrite this effort, the federal financial assistance was combined with state funds obtained through the NYSDED and contributions from local units of government, companies and economic development agencies. Local economic development agencies and institutions of higher education agreed to assist by providing in-kind services.

Economics Research Associates (ERA) was then retained by NYSDED to prepare an Economic Adjustment Strategy for the Southern Tier Region and companion documents focusing on local issues and opportunities for each of the nine counties. Specifically, ERA was engaged to evaluate the factors causing the region's economic distress and identify strategies and a plan of action to overcome current economic circumstances, capitalize the Southern Tier's strengths, and achieve the growth and diversification of the regional economy.

The purpose of the 1993 Economic Adjustment Strategy was to identify what needs to be done by the public and private sectors working together to strengthen and diversify the Southern Tier's economy. The Southern Tier has all of the ingredients necessary to weather current economic circumstances and emerge better able to prosper. However, the public sector cannot "fix" the economy; it can only facilitate private sector efforts by furnishing strategic support, ensuring a state of readiness for business expansion (e.g., by providing adequate infrastructure), and thereby creating an environment conducive to economic growth.

Many of the problems facing Southern Tier companies resulted from the convergence of national and international economic trends and prevailing contemporary business practices, along with declining defense spending, which was relied upon by many industries within the region. However, some companies have managed to thrive in this environment by engaging in rigorous self-examination, conducting extensive market and other research, and making strategic investments in change designed to enhance their competitiveness and ensure their survival and growth. Many companies presently struggling have not yet chosen to identify these strategies for themselves or have not fully implemented them. For many smaller Southern Tier firms, this inattention to the future is rooted in the demands of the present; simply surviving has consumed their full attention and energy. Nonetheless, these companies' prospects - and hence the overall outlook for economic growth in the Southern Tier - depend upon their willingness to take responsibility for their futures and make difficult, strategic choices and investments.

And what of the public sector? Government at all levels is a popular scapegoat for industries in the throes of economic transition. While government policies and practices certainly affect the private sector, fundamentally, the private sector must take responsibility for its own survival and advancement. As stated above, the public sector can assist by getting its house in order and by providing quality technical and financial assistance to the extent its resources allow.

Consequently, it is imperative that public sector economic development organizations:

- coordinate the delivery of economic development services to the private sector;
- eliminate inefficiencies and duplication by carving out discrete missions for agencies at each level of government, and;
- work with the private sector to ensure that they spend tax dollars wisely and structure assistance programs that serve as catalysts to stimulate corporate investment in activities which increase their competitiveness and create economic growth.

This requires an adjustment to the economic development philosophy which dominated the field during the 1980s and earlier decades; an emphasis on site selection and financing assistance.

The 1990s require economic development practitioners to focus on business retention and expansion and facilitating start-up ventures: growing the economy from within. Public sector economic development practitioners can only fulfill the mandate of helping business help itself

if they develop an understanding of the competitiveness issues facing companies today. Although economic development practitioners cannot become expert in all facets of running a business, they need to become conversant with a wide range of competitiveness topics and technology advances and be able to direct clients to appropriate sources of information and assistance.

Many private sector actions are in large part beyond the sphere of the public sector's influence, however, the economic adjustment strategies focus primarily on government actions and joint public-private efforts to encourage and support private sector investment and development. Specifically, ideas to aid the public sector in helping the private sector enhance its competitiveness through such activities as identifying core competencies, benchmarking, modernization, adopting new process and product technologies, investing in human resources training, and forming networks and consortia with complementary and/or competing firms for mutual advantage. The strategies also focus on fostering small and mid sized companies: the source of future job growth and the firms with the fewest resources available to help themselves.

The solutions to the Southern Tier's economic ills lie within the region and the state at large.

The overall objective of the economic development community should be:

- To help the private sector help itself to attain ongoing competitiveness in the global marketplace and capture new business opportunities.

Consequently, the strategies must be designed to induce industries to change, as well as to stimulate private initiative and investment.

The primary responsibility for achieving and sustaining competitiveness and making strategic investments toward those ends must remain with the private sector. However, federal, state and local government incentives and assistance, if properly designed and used, can induce companies to change and enable government to help foster the climate necessary to help the private sector realize its objectives. The economic development strategies crafted for the Southern Tier Region must also ensure that the State and localities function as effective economic development partners to maximize the Region's prospects.

New and unified approaches will be necessary for the Southern Tier Region to capitalize on its unique resources and to realize new economic opportunities. Meeting the Southern Tier's future challenges requires a strong commitment by the public and private sectors to work together - a partnership between and among private sector interests, counties and other sub-units of government - in support of region-wide economic development efforts and initiatives. Unless these alliances are forged to ensure leadership and capitalize upon the available resources to remove barriers to economic growth and prosperity, the impact will be limited.

Meetings and discussions with local economic developers, industry executives and civic leaders have lead to the following broad strategies as priorities for the Southern Tier Region.

- Help companies become more competitive.

- Enhance access to and availability of capital for growth and expansion.
- Improve the economic development delivery system.

A detailed discussion of each strategy follows:

Help Companies Become More Competitive

Global competition and domestic pressures to cut costs and improve productivity necessitate enhanced competitiveness by Southern Tier firms. Several programs already exist in the region designed to improve corporate competitiveness. These programs should be

nurtured and expanded to help companies become more competitive. A description of the various programs is as follows:

- The Alliance for Manufacturing Competitiveness is a collaborative effort between four area community colleges (Broome, Cayuga, Corning, and Tompkins-Cortland) and Binghamton University. The Alliance is designed to provide Southern Tier manufacturing firms with quality training programs essential for competitiveness, in a highly coordinated fashion. Five skill building modules include courses tailored to engineers/technologists responsible for system and strategy design or implementation. The modules include:

- Total Quality Management
- Design for Manufacturability
- Continuous Flow Manufacturing and Just-in-Time Techniques
- Systems Integration
- Leadership and Team Concepts

These programs address three critical needs which apply to manufacturers throughout the Southern Tier:

- Assistance in developing new manufacturing strategies;
- Comprehensive training for the entire labor force;
- Life-long professional development courses to protect long-term competitiveness

Agile Manufacturing concepts as a competitiveness strategy are also under development by the Alliance for Southern Tier companies. Supplier network training is also receiving much greater emphasis as a competitiveness tool.

The Economic Development Skills Training Program (EDSTP) has proven to be a valuable resource for many firms in the Southern Tier Region. The EDSTP should supplement and augment the objectives of the Alliance for Manufacturing Competitiveness. The Alliance's activities also need to be integrated with the Southern Tier's expanding technology development programs spearheaded by UnIPEG, such as the new Manufacturing Extension Program.

As a means of delivering workforce resources in a coordinated, efficient, and effective manner, attempts should be made to establish a "one-stop" approach to competitiveness worker training and education in the Region. The existing SUNY-DED Partnership has provided the framework for delivering this concept.

- The Center for Commercial Competitiveness (C³) is based on a successful U.S. and State of New York Department's of Labor effort, with funding supplemented by NYSDED and private sector contributions. C³ is a partnership between industry, academia and government dedicated to assisting the Southern Tier's defense industries convert to commercial activities and to train defense-displaced workers. C³ seeks to stimulate new business opportunities by providing a forum for companies to assess their core competencies and identify mutually beneficial and synergistic ways to work together. The C³ plan recognizes that displaced defense workers (and their skills base and corporate backgrounds) represent a tremendous resource to the Southern Tier and can play a key role in the Southern Tier's collective return to competitiveness and the conversion of its defense industries. C³ seeks not only to provide displaced workers with new skills, but also to "install a commercial mind-set in displaced workers and defense industry personnel." The C³ program contains three phases:

- **Phase I - Team Building** C³ will provide training to displaced workers and industry personnel, including On-the-Job technical training geared towards conceiving new commercial markets and products for industry.
- **Phase II - Synergistic Enterprises** C³ will help industry form joint ventures and create large scale cooperative programs on products of national importance.
- **Phase III - Virtual Companies** C³ will help industry create highly competitive and agile business arrangements that maximize productivity and combine core competencies in order to pursue and capture new large global opportunities and utilize critical technologies.

C³ has adopted a "best practices" approach to its mission, using the best manufacturing, training and productivity ideas available through such sources as Workforce 2000, America 2000, the Agile Manufacturing Enterprise Forum, and Lehigh University's Iacocca Center. C³ thus offers a two-pronged approach to solving the problems wrought on the Southern Tier economy by cutbacks in defense spending:

- retraining displaced workers through the development of self-directed work teams and the resources available at Binghamton University; and
- helping the Region's defense-dependent companies define new products, markets and manufacturing processes to ensure their ongoing competitiveness.

- Formation of Corporate Networks and Consortia furthers the notion of profiting through cooperation, which is a concept gaining increased acceptance by American businesses as they struggle to compete. The public sector can play an important role in facilitating networks and assisting the private sector reap the benefits available from joint projects. These efforts must take place on a regional scale to ensure a critical mass of companies.

Within the Southern Tier, key players in the ceramics and electronics packaging industries are already working in concert through the Ceramics Corridor, Integrated Electronics Engineering Center, and the Industry-University Alliance for Electronics Packaging. The Southern Tier is home to several other industry clusters which could profit from forming consortia, including:

- Rail transportation
- Simulators
- Primary and secondary wood products
- Imaging technology
- Biotechnology
- Computer peripherals
- Laser technology

- Entrepreneurial Assistance is vital to the success of displaced workers and entrepreneurs who are looking to start new business ventures in the Region. Indepth technical assistance and classroom training in financing, marketing, business plan development, and the like are essential elements of a good assistance program. It would also be helpful to have mentors from the business community who are willing to share their practical experience with new entrepreneurs.

Enhance Access to and Availability of Capital for Growth and Development

The public sector should work with private sector financial institutions to address gaps in the capital markets which affect diversification and the growth of small enterprises in the Southern Tier. It is vital that we address the financial needs of small companies and new business ventures that are currently going unmet. The following programs should be explored as possible solutions to the Southern Tier's need for additional capital resources.

- Create a Regional Revolving Loan Trust Fund by a special state appropriation, through the Urban Development Corporation.
- Establish a regional small business loan pool through a consortium of banks in the region, to complement the Regional Revolving Loan Trust Fund. This would enable banks to make funds available to small companies through risk sharing.

A complement to such a consortium would be the creation of a loan loss reserve program attached to small business loans entertained by a bank consortium.

- Establish a Seed Capital fund as one component of a regional Entrepreneurial Assistance Program. This fund would provide small amounts of seed capital to dislocated workers and entrepreneurs looking to form businesses in the Southern Tier.

Every attempt should be made to work with existing revolving loan fund providers so that we do not encounter duplication or work at cross purposes. Special purpose revolving loan funds to help Minority and Women-Owned Business Enterprises or dislocated defense workers should also be explored.

Improve The Economic Development Delivery System

The Southern Tier needs stronger regional entities enabling local private sector leaders and economic developers to come together to plan for and influence the Region's future and provide implementation support; in effect, to take charge of their economic destiny. The Southern Tier's private sector leaders, in particular, need to have a stake in the Region's economic health, and feel ownership in efforts to improve it, which extend beyond their own immediate business health. The economic development providers also need a vehicle which will enable them to plan and work together on regional initiatives of common interest, such as marketing for new investment.

While the Southern Tier's local economic delivery system is reasonably well-structured, local and regional control of state resources needs strengthening. Without exception, successful regions have established region-wide bodies which provide leadership, create new ideas, and bring their stature to bear upon problems and opportunities of regional significance.

There is a clear need to empower the private sector for economic development and establish Region-wide organizations, such as an expanded Regional Economic Development Council, which can:

- Create a de-politicized environment to enable the Southern Tier to function as a Region;
- Bridge the existing gaps between the Region's various economic development organizations and unite them in common purpose;
- Involve the Region's top private and public sector leaders and economic development practitioners in implementing the regional strategy;
- Generate ideas which leverage the Southern Tier's assets for the Region's benefit;
- Set priorities for Region-wide project initiatives and assure their implementation;

- Lobby and obtain access to state and federal decision-makers to ensure their continued support and funding of the Southern Tier and its initiatives;
- Provide constructive criticism of existing and proposed programs and policies promulgated by the state and federal government.

The Southern Tier also lacks a region-wide organization of planning and economic development professionals. Efforts in the Southern Tier over the years to create such an organization never came to fruition, highlighting the Region's historic inability to pull together. There appears to be some momentum now for implementing this approach, through a Regional Economic Development Corporation. The enabling legal work has been completed, and interest in the idea has revived. If the Southern Tier's economic development community decides to pursue the idea, this entity could manage a new regional revolving loan fund. The economic development corporation would likely be comprised of the nine county IDAs, NYSEG and larger LDCs in addition to the two Regional Planning Boards, which serve the Southern Tier.

Improving the economic development delivery system should also entail the consolidation of related programs, streamlined application processes, and decentralized funding authority. Regional DED offices should have discretionary funds, with appropriate use and dollar limits, at their disposal in accordance with their Regional Economic Development Plans. To achieve this kind of autonomy, all the economic development organizations in the Southern Tier must band together, and demonstrate their ability to deliver region based programs in a professional and competent manner. A certification program may facilitate this effort.

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Economic Adjustment Strategy For The Southern Tier Region Of New York State Executive Summary



Executive Summary

**ECONOMIC ADJUSTMENT STRATEGY
FOR THE SOUTHERN TIER REGION
OF NEW YORK STATE**

Prepared for:

**NEW YORK STATE
DEPARTMENT OF ECONOMIC DEVELOPMENT**

July, 1993

This economic adjustment strategy was accomplished by professional consultants under contract to the New York State Department of Economic Development under Grant No. OL-49-03208. The statements, findings, conclusions, recommendations, and other data in this report are solely those of the contractor and not necessarily those of the Economic Development Administration.

EXECUTIVE SUMMARY

New York State's nine county Southern Tier Region¹ encompasses 7,185 square miles stretched along the New York-Pennsylvania border, spanning roughly 150 miles from east to west and roughly 50 miles from north to south. Larger Southern Tier communities include Corning, Elmira, Ithaca, Binghamton, and Oneonta. In 1990, 731,041 people lived in the Region; population growth has been stagnant. The Region's economy supported 305,400 non-farm jobs in 1991. The Region's natural resources play a key role in the Southern Tier economy, underpinning its agricultural, forestry and tourism sectors.

The Southern Tier Region has been undergoing significant structural transition for more than a decade. The Region has the second highest concentration of Department of Defense-dependent manufacturing industries in New York State and ranks tenth highest in the nation. Cutbacks in the federal defense budget, coupled with corporate restructuring, trouble in the nation's manufacturing sector and the effects of the recession, have resulted in the loss of 19,200 manufacturing jobs since 1980.

In late 1990, the New York State Department of Economic Development (NYSDED) Southern Tier Regional Office organized a Task Force to address the factors causing the Region's severe economic distress. The Task Force identified the need to develop an economic adjustment strategy for the Region. The NYSDED Southern Tier Regional Office obtained funding for this study from the Department of Defense (DOD) Office of Economic Adjustment (OEA) and the U.S. Department of Commerce (DOC) Economic Development Administration's (EDA) Title IX Program. To underwrite this effort, the federal financial assistance was combined with state funds obtained through the NYSDED and contributions from local units of government,

¹ The Southern Tier Region ("the Region") encompasses Broome, Chemung, Chenango, Delaware, Otsego, Schuyler, Steuben, Tioga, and Tompkins Counties.

companies and economic development agencies. Local economic development agencies and institutions of higher education agreed to assist by providing in-kind services.

Economics Research Associates (ERA) was then retained by NYSDED to prepare an Economic Adjustment Strategy for the Southern Tier Region and companion documents focussing on local issues and opportunities for each of the nine counties. Specifically, ERA was engaged to evaluate the factors causing the Region's economic distress and identify strategies and a plan of action to overcome current economic circumstances, capitalize on the Southern Tier's strengths, and achieve the growth and diversification of the regional economy. This Executive Summary provides a synopsis of the major findings, conclusions and recommendations emanating from an eighteen month-long effort to this end.

PHILOSOPHY BEHIND THE ECONOMIC ADJUSTMENT STRATEGY

The ultimate purpose of this Economic Adjustment Strategy is to identify what needs to be done by the public and private sectors to strengthen and diversify the Southern Tier's economy. We believe that the answers to the Southern Tier's economic problems are available within the existing economic structure and the public sector agencies dedicated to economic development. The Southern Tier has all of the ingredients necessary to weather current economic circumstances and emerge better able to prosper. However, the public sector can not "fix" the economy by itself; it can only facilitate private sector efforts by furnishing technical assistance, ensuring a state of readiness for business expansion (e.g., by providing adequate infrastructure) and thereby creating an environment conducive to economic growth.

Many of the problems facing Southern Tier companies originated from the convergence of national and international economic trends and prevailing contemporary business practices (along with declining DOD spending for those industries which rely upon it). However, some companies have managed to thrive in this environment by engaging in rigorous self-examination, conducting extensive market and other research,

and making strategic investments designed to enhance their competitiveness and ensure their survival and growth. Those companies and industries presently struggling must face the fact that they have not chosen to make a concerted effort to identify these strategies for themselves and/or have not yet fully implemented them. For many smaller Southern Tier firms, this inattention to the future is rooted in the demands of the present; simply surviving has consumed these corporations' full attention and energy. Nonetheless, these companies' prospects — and hence the outlook for economic growth in the Southern Tier — depend upon their willingness to take responsibility for their futures and make difficult, strategic choices and investments.

And what of the public sector? Government at all levels is a popular scapegoat for industries in the throes of economic transition. While government policies and practices certainly affect the private sector, fundamentally, the private sector must take responsibility for its own survival and advancement. As stated above, the public sector can assist by getting its house in order and by providing quality technical and financial assistance to the extent its resources allow.

Consequently, it is imperative that public sector economic development organizations:

- coordinate in the delivery of economic development services to the private sector;
- eliminate inefficiencies and duplication by carving out discrete missions for agencies at each level of government, and;
- work with the private sector to ensure that they spend tax dollars wisely and structure assistance programs that stimulate corporate investment in activities which increase their competitiveness and create economic growth.

This requires a departure from the economic development philosophy which dominated the field during the 1980s and earlier decades; smokestack chasing and an emphasis on site selection and financing assistance.

The 1990s require economic development practitioners to focus on business retention and expansion and facilitating start-up ventures: growing the economy from within. Public sector economic development practitioners can only fulfill the mandate of helping business help itself if they develop an understanding of the competitiveness issues facing companies today. Although economic development practitioners can not (and should not) become expert in all facets of running a business, they need to become conversant with a wide range of competitiveness topics and technology advances and be able to direct clients to appropriate sources of information.

Since private sector actions are in large part beyond the sphere of the public sector's (or this report's) influence, this economic adjustment strategy focuses primarily on government actions and joint public-private efforts. However, many of the strategies addressed to the public sector have been crafted with a view towards the private sector: ideas to help the public sector help the private sector enhance its competitiveness through such activities as identifying core competencies, benchmarking, modernization, adopting new process and product technologies, investing in human resources training, and forming networks and consortia with complementary and/or competing firms for mutual advantage. The strategies also focus on assisting small and mid-sized companies: the source of future job growth and the firms with the fewest resources available to help themselves.

NOTABLE CHARACTERISTICS OF THE SOUTHERN TIER

Almost all corporate representatives and other community leaders interviewed as part of this project praised the quality of life available in the Southern Tier Region and we concur with their observations. The assets noted include the following:

- Clean and safe environment with little crime or drug activity;
- Diversity of things to do, and places to go, including a variety of cultural-, heritage- and recreation-oriented opportunities and tourism attractions which contribute to family life;

- Less expensive to maintain a high standard of living;
- Low wage rates and good labor force availability
- People willing to work together who exhibit a good work ethic;
- Excellent location and access to markets;
- Small town/rural atmosphere;

Despite its predominantly rural character, the Southern Tier and its economy feature a number of attributes more commonly associated with urbanized areas.

Diverse Economy With Major Corporate Presence

The Southern Tier Region is home to several major multi-national and national corporations, including: International Business Machines Corporation (IBM), Martin Marietta, Corning, Inc.; Dover Electronics; Universal; Proctor and Gamble; Toshiba Display Devices, Inc.; ABB Traction, Inc.; Morrison-Knudsen, Inc., Kraft General Foods, and; Amphenol Corporation, among many others. However, the Region also boasts many vibrant small and mid-sized companies, many of which are engaged in high technology industries.

The Region's economic base is relatively well diversified. The manufacturing sector includes traditional and natural resources-based industries as well as high tech companies. Traditional industries present in the Southern Tier include:

- agriculture and food processing, including dairy products and wine
- footwear and apparel manufacturing
- primary and secondary wood products
- printing and publishing
- metal fabrication
- industrial and transportation equipment
- road salt

Regional high technology specializations include:

- advanced ceramics
- electronics packaging
- manufacture/assembly of personal computers and related equipment and parts
- manufacture of simulators and related components, including software
- consumer and industrial electronics/electrical machinery and equipment, including printed circuit boards
- aerospace electronics
- rail transit
- bio-technology (an emerging sector)

Tourism is also an important element of the Southern Tier Region's economy. The Region's vast natural resources — the Finger Lakes, the Catskills, virgin forests and park lands, the major river valleys, historic places — and the man-made attractions (e.g., the Baseball and Soccer Halls of Fame and the Corning Glass Museum) — bring approximately 2 million visitors to the Southern Tier each year.

Concentration of Defense-Dependent Manufacturers

Changes in Department of Defense (DOD) contracting activity reflect national policies concerning budget deficit reductions, major weapons programs, national security issues and, of course, political tensions around the world. The Governor's Defense Advisory Panel estimated that DOD prime contracts supported 16,250 jobs in the Southern Tier in 1990, or 9.4 percent of the 173,000 defense-dependent jobs in New York State as a whole (both figures calculated using a DOD estimate that every billion dollars of prime contracts creates 25,000 jobs). Jobs attributable to DOD prime

contracts thus represented about 5.2 percent of the 313,600 jobs in the Southern Tier in 1990, the peak employment year.

The Department of Defense represents an important customer for both large and small Southern Tier firms located throughout the Region. DOD purchases a wide array of products from Southern Tier firms, especially electronic components with an emphasis on military aeronautics, including missiles, aircraft (including helicopters), and spacecraft. Some of the Southern Tier's largest employers, including IBM's Federal Systems Division, Martin Marietta (formerly GE-Aerospace), CAE-Link, Inc., Dresser Rand, Inc., Amphenol, Inc., Simmons Precision, and Cornell University receive millions of dollars each year from DOD and the military service branches. Mid-sized companies (such as Chromalloy Gas Turbine, Raymond Corporation, Mercury Aircraft, and Astrocom) and small companies (including some firms with fewer than five employees) also benefit both directly and indirectly from DOD spending in the Southern Tier. Although firms located in all nine counties are DOD prime contractors, the procurement is concentrated in Broome, Tioga, Steuben, and Chenango Counties.

The table on the following page compares Department of Defense (DOD) contract awards by source for each of the three Sub-Regions and the Southern Tier as a whole for 1989 and 1991 in current dollars. It should be noted that the information presented in the table does not reflect the full significance of DOD contracting activity in the Southern Tier:

- There is a considerable lag time involved in DOD contract awards;
- Many local firms may receive sub-contracts from prime contractors located outside of the Southern Tier Region;
- The data may be skewed due to the life-cycle of a particular program for which local firms have been awarded contracts.

CHANGES IN PRIME D.O.D. CONTRACT AWARDS BY SOURCE,
 EASTERN, CENTRAL, WESTERN SUB-REGIONS, SOUTHERN TIER,
 FEDERAL FISCAL YEARS (OCT. - SEP.) 1989 AND 1991
 (in thousands of current dollars)

Source	Eastern Sub-Region		Central Sub-Region		Western Sub-Region		Southern Tier	
	1989	1991	1989	1991	1989	1991	1989	1991
Army	1,148	1,840	12,124	29,756	2,875	1,126	16,147	32,722
Navy	1,588	13,558	212,026	180,622	6,607	1,485	220,221	195,665
Air Force	6,532	4,894	287,138	70,345	1,324	2,798	294,994	78,037
DLA	4,540	5,734	1,970	1,069	5,951	3,505	12,461	10,308
Others ⁽¹⁾	266	80	5,948	4,718	363	632	6,577	5,430
Total	\$14,074	\$26,106	\$519,206	\$286,510	\$17,120	\$9,546	\$550,400	\$322,162
Change 1989 - 1991								
Source	Eastern Sub-Region		Central Sub-Region		Western Sub-Region		Southern Tier	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Army	692	60%	17,632	145%	(1,749)	-61%	16,575	103%
Navy	11,970	754%	(31,404)	-15%	(5,122)	-78%	(24,556)	-11%
Air Force	(1,638)	-25%	(216,793)	-76%	1,474	111%	(216,957)	-74%
DLA	1,194	26%	(901)	-46%	(2,446)	-41%	(2,153)	-17%
Others ⁽¹⁾	(186)	-70%	(1,230)	-21%	269	74%	(1,147)	-17%
Total	\$12,032	85%	(\$232,696)	-45%	(\$7,574)	-44%	(\$228,238)	-41%

⁽¹⁾Includes OCE and ODA contracts.

Source: Department of Defense; and Economics Research Associates.

Filename: ALL.DOD.WK1

In spite of these qualifications, the data presented provides a capsule overview of the significance of DOD contracting activity and budget cutbacks on the Southern Tier.

As shown in the table, annual DOD prime contracts with Southern Tier firms totaled \$550.4 million in 1989 and dropped by 41 percent or \$228.2 million to \$322.2 million in 1991. Procurement fell by 45 percent and 44 percent for the Central and Western Sub-Regions, respectively. On the bright side, the Eastern Sub-Region experienced an 85 percent increase. Using the DOD estimate of 25,000 jobs per billion dollars of prime contract value, the Southern Tier's 1991 employment base included 8,054 jobs directly attributable to defense procurement. Since defense contracts are typically multi-year agreements with a phased allocation of funds, this drop should not be interpreted to mean that over 50 percent of the 16,250 FY 1990 defense jobs were lost. However, it illustrates the severity of the impacts reduced defense spending may hold for the Southern Tier, as contracts expire and companies down-size in anticipation or response.

The short-term health of defense-oriented Southern Tier companies depends in part on the nature of the coming defense cuts; in the long run, federal defense budget decisions may determine whether some Southern Tier companies survive. Reductions in defense spending have and will continue to cause job losses and hardship for the Southern Tier, even if other economic activity eventually absorbs the displaced workers. Defense industries employ proportionately more engineers, scientists, technicians, and other skilled workers than does U.S. industry in general. As displaced workers disperse, the Southern Tier's other companies must absorb them or a "brain drain" may follow.

Colleges and Universities

The Southern Tier Region is a center of higher education. Colleges and universities include: Cornell University, Binghamton University in Vestal (formally State University of New York at Binghamton) and two State University of New York

(SUNY) campuses located in Oneonta and Delhi. Nearby Alfred University is a major research institution with ties to Region businesses. Several private colleges, community colleges and vocational education schools are also located in the Southern Tier. Collectively, these research and higher education institutional resources constitute a powerful regional asset. Moreover, their specializations correspond to several Southern Tier manufacturing and technology strengths, most notably, ceramics, electronics packaging, food processing, and bio-technology.

Economic Development Delivery System

The Southern Tier's extensive economic development delivery system includes public, private and quasi-public organizations operating at the local, county, sub-regional and regional level. Major multi-county organizations include:

- The New York State Department of Economic Development's Southern Tier Regional Office, which serves the entire nine county Region and provides the nexus between the State's many technical and financial assistance programs and local economic development efforts;
- The Regional Economic Development Council (REDC), a group of citizens, community development professionals, elected officials, and business executives appointed by the Governor who provide guidance to NYSDED and the Southern Tier's public sector economic development entities;
- The University-Industry-Public Partnership for Economic Growth (UnIPEG), which coordinates technology transfer activities for a ten county region which includes the Southern Tier plus Allegeny County.
- The Southern Tier Central Regional Planning and Development Board (STCRPDB) and the Southern Tier East Regional Planning and Development Board (STERPDB) which between them cover all nine counties (and others outside of the Region). The two organizations supplement local planning and economic development efforts and provide the nexus between various federal agencies (e.g., the EDA, the Appalachian Regional Council and the Federal Aviation Administration) and local government.

- The New York State Gas and Electric Company (NYSEG) provides site selection assistance and operates programs designed to help business by increasing energy efficiency.
- The Southern Tier World Commerce Association (STWCA) provides export assistance to the Region's businesses.

Various New York State Departments and their divisions also play a key role in economic development within the Southern Tier, including the New York State Department of Economic Development (and its tourism division), the New York State Science and Technology Foundation (NYSSTF), the Urban Development Corporation (UDC), the Job Development Authority (JDA), the New York State Department of Environmental Conservation (NYSDEC), and the New York State Department of Labor.

Existing Publicly Supported Diversification and Competitiveness-Enhancing Efforts

Several important initiatives designed to advance Southern Tier firms' competitiveness and promote economic diversification are already underway in the Southern Tier Region. These undertakings, described briefly in the bullet points below, are funded in whole or in part by local, state and federal government programs as well as contributions from educational institutions and private industry. Along with the economic development organizations profiled above, they provide an important foundation which will help support the implementation of the strategies contained in this report and achieve the goals set by the Task Force.

- The Southern Tier is home to two Centers for Advanced Technology (CATs), sponsored by the New York State Science and Technology Foundation; another with extensive ties to the Region is located in nearby Alfred. These are: the Center for Advanced Ceramic Technology at Alfred University; the Center for Bio-Technology in Agriculture at Cornell, and; the Center for Electronics Packaging recently approved for Binghamton University which will supplement the activities of the Integrated Electronics Engineering Center and the Industry-Cornell University Alliance for Electronic Packaging. The CATs offer a forum for universities and industry to conduct research of mutual interest. The

Southern Tier CATs' specializations correspond to the Region's industrial and academic strengths.

- The Alliance for Workforce Development is a collaborative effort between four area community colleges (Broome, Cayuga, Corning, and Tompkins-Cortland) and Binghamton University in the grantsmanship stage. The Alliance is designed to provide Southern Tier manufacturing firms with high quality training programs in a coordinated fashion. Five skill-building modules include courses tailored to engineers/ technologists responsible for system and strategy design or implementation. The modules include:
 - Total Quality Management
 - Design for Manufacturability
 - Continuous Flow Manufacturing and Just-in-Time Techniques
 - Systems Integration
 - Leadership and Team Concepts

These programs address three critical needs which apply to manufacturers throughout the Southern Tier:

- Assistance developing new manufacturing strategies;
- Comprehensive training for the entire labor force;
- Life-long professional development courses to protect long-term competitiveness

- The Center for Commercial Competitiveness (C3) resulted from a successful Binghamton University effort to obtain funding through the U.S. and State of New York Departments of Labor to supplement private sector contributions. C3 is a partnership among industry, academia and government dedicated to assisting the Southern Tier's defense industries convert to commercial activities and to training defense-displaced workers. The two agencies' grants total over \$550,000. C3 attempts to address many of the issues expounded upon in this report. Its mission goes beyond the immediate problem of training defense-displaced workers. C3 seeks to stimulate new business opportunities by providing a forum for companies to assess their core competencies and identify mutually beneficial and synergistic ways to work together. The C3 plan recognizes that displaced defense workers (and their skills base and corporate backgrounds) represent a tremendous resource to the Southern Tier and can play a key role in the Southern Tier's collective return to

competitiveness and the conversion of its defense industries. C3 seeks not only to provide displaced workers with new skills, but also to "instill a commercial mind-set in displaced workers and defense industry personnel." The Center will provide immediate jobs for participating defense workers during the nine months in which they complete the program. The C3 program contains three phases:

- **Phase I — Team Building** C3 will provide training to displaced workers and industry personnel, including On-the-Job technical training geared towards conceiving new commercial markets and products for industry.
- **Phase II — Synergistic Enterprises** C3 will help industry form joint ventures and create large scale cooperative programs on products of national importance.
- **Phase III — Virtual Companies** C3 will help industry create highly competitive and agile business arrangements that maximize productivity and combine core competencies in order to pursue and capture new large global opportunities and utilize critical technologies.

C3 has adopted a "best practices" approach to its mission, using the best manufacturing, training and productivity ideas available through such sources as Workforce 2000, America 2000, the American Manufacturing Enterprise Forum, and Lehigh University's Iacocca Center. C3 thus offers a two-pronged approach to solving the problems wrought on the Southern Tier economy by cutbacks in defense spending:

- retraining displaced workers through the development of self-directed work teams and the resources available at Binghamton University, and;
- helping the Region's defense-dependent companies define new products, markets and manufacturing processes to ensure their ongoing competitiveness.
- New York State operates a host of industrial modernization and competitiveness-enhancing programs. Many are coordinated through the Empire State Manufacturing Service. The most notable of these include:

The Industrial Effectiveness Program (IEP) (available through the NYSDED Empire State Manufacturing Service) offers qualified firms grants to conduct Productivity Assessments, identify opportunities for improvement and implement remedial actions.

A related program, the Industrial Technology Extension Service (ITES) operated by the New York State Science and Technology Foundation, provides free technical and managerial consulting services to small businesses; ITES field agents help manufacturing firms research, evaluate and implement technology-related product improvements.

The Economic Development Skills Training Program (EDSTP) helps companies upgrade the skills of existing employees, implement total quality programs, introduce high performance workplace management systems, and adopt new technologies and/or processes.

The Global Export Marketing Service (GEMS) offers matching grants to firms assessing their potential to begin or increase exporting activity and to create and implement foreign marketing business plans. Related programs provide additional export assistance.

The Defense Diversification Program (DDP), operated by the Empire State Manufacturing Service, utilizes existing programs (including those described above) to meet the needs of New York's defense companies. DDP services help defense companies diversify into commercial markets and increase their competitiveness in the defense market by addressing companies' needs in the following areas: strategic planning, export market development, production process adaptation, human resources development, total quality management, technology transfer, product development, competitiveness education, and procurement.

The Job Development Authority (JDA) and the Urban Development Corporation both provide low cost financing assistance to companies in need of new machinery and equipment, and new/expanded facilities. UDC also offers programs providing financing assistance to companies

to help them purchase and install new production technologies and retool, as well as working capital and loan guarantees.

Unfortunately, most of these programs are under-utilized by Southern Tier firms.

CHALLENGES FACING SOUTHERN TIER COMPANIES

Southern Tier companies, like their counterparts across the country, must shape their business practices and strategies in accordance with broad market forces and structural shifts in the economy that are often beyond their control. The Southern Tier's companies have not been immune to business trends at home and abroad that have reduced our country's stature in the world economy and eroded our economic might.

Although many point to the ongoing national recession, the decline in manufacturing nationwide, and cutbacks in defense spending as the causes of the Southern Tier's economic malaise, these issues are just part of the explanation. While they may be partially (or, in some cases, totally) responsible for any given company's troubles, the problems in the Southern Tier, and in the nation as a whole, go much deeper. Indeed, Southern Tier companies' troubles mirror those plaguing American business as it struggles to attain and maintain competitiveness in the face of new and changing global market dynamics. While corporate efforts to recover from the recession, restructuring and defense cutbacks may (and should) involve addressing long-term competitiveness issues, in many cases, dealing with these three economic blights results in a series of short term measures that distract companies from addressing the root problems preventing them from moving from a survival mode to a success mode.

National Business Trends Affecting the Southern Tier

During the 1980s, the American economy experienced several profound changes:

- The 1980s represented a frenzied and tumultuous period in American economic history. The decade saw maturing markets, volatile interest rates, inflationary pressures, rapid development of technological innovations, and heightened foreign competition. Several industries were

deregulated. During the decade, the economy grew for seven uninterrupted years. Unemployment and inflation rates, which had reached double-digits in the early eighties, began to recede. The stock market, which had tripled in value, collapsed in 1987, before attaining even greater value during the 1990s.

- The economic boom, to a great extent, was fueled by record defense expenditures.
- Economic prosperity increased Americans' appetite for material goods: consumer debt soared, the national savings rate plummeted and world commerce reached new highs along with the gap in the nation's balance of trade. Meanwhile the federal debt increased to record levels.
- In this high-capital-cost environment, the nation also witnessed the restructuring of corporate America: a manic blur of mergers and acquisitions, leveraged buy-outs and debt-financed takeovers occurred to satisfy investors' need for short-term returns. The result: corporate debt almost tripled, and much of the investment was unproductive in a real sense. At the local level, corporate decisions emanating from board rooms located elsewhere no longer reflected any sense of loyalty to the communities affected.

The mergers and acquisitions movement meant that American companies were investing in each other, instead of in research and development, improved manufacturing processes, human resources, and other ingredients of competitiveness. Other results included an emphasis on short term returns instead on long range profits and massive corporate debt.

- The resulting "down-sizing" and "right-sizing" American corporations embraced in order to boost profits and pay off debt — eliminating middle management, moving operations overseas, and curbing wages — succeeded in raising productivity. Unfortunately, the heightened productivity carried its own price: the loss of over one million manufacturing jobs. Now that those short-term solutions are exhausted, productivity increases have fallen to a one percent growth rate from an annual rate of 2.9 percent between 1980 and 1990. Moreover, the aforementioned corporate restructuring has led to equal opportunity unemployment in the 1990s: well-educated people are no longer immune and now also compete for less skilled jobs in some localities.

- People with MBAs began to run American companies rather than those advanced degrees in technical/science fields — while the former understand the nuances of corporate accounting, finance and management (the thrust of many U.S. companies), the latter better understand the potential long-term advantages their product- and process-oriented engineers' ideas may hold.
- The financing needs of business changed. In the past, when the economic environment was stable, the predominant financing need stemmed from established firms with clearly identified markets. However, growth in today's rapidly evolving more competitive global economy is coming from small firms in emerging industries, companies expanding into new market niches, and maturing industries which require restructuring, e.g., defense companies. If the economy is to advance quickly, capital sources must become more flexible and willing to accept greater risk.
- In the aftermath of the Cold War, the U.S. has embarked on a here-to-fore unsurpassed effort at reducing defense expenditures. Overall defense spending is predicted to decrease from a peak of 6.4 percent of GNP to about 3.8 percent in 1996, the smallest percentage since before World War II. In real terms, procurement is projected to fall by almost 50 percent between FY 1985 and FY 1996, dropping from \$123.9 billion to \$64.3 billion (1992 dollars), according to the Office of Technology Assessment.

The budget reductions have had and will continue to have a significant impact on many companies. Unfortunately, the structural upheaval and lingering recession, coupled with a failure to address competitiveness issues makes it more difficult for individual companies to weather the transition. In addition, these trends also increase the agony displaced defense industry workers suffer when trying to find new positions and impede the local economy's ability to absorb them.

Moreover, many barriers to transition exist. Commercial marketing and distribution are foreign concepts to many defense companies. Defense firms are oriented towards producing a few specialized products, not high-volume manufacturing. Defense companies must meet strict military construction standards, which exceed strength and other quality standards that are practical for the commercial markets. Another major barrier to conversion lies in the company culture defense-oriented firms

exhibit, which emphasizes contract management, monitoring and auditing. While well-intentioned, these systems must be re-designed to enable companies to offer commercial products at competitive prices.

- Meanwhile the nation's budget deficit has soared. The budget deficit, coupled with the national debt, prevents the federal government from boosting the economy by dramatically increasing spending as in years past: many state governments are in a similar predicament. The burden has been passed on to local governments, which are wrestling with their own problems, including declining tax bases and increasing responsibility for programs and projects previously underwritten by state and federal government.

America stands at an economic crossroads. The lavish consumption of the 1980s and the wrenching recession of the early 1990s have left us with stalled job growth, enormous personal, corporate and federal debt, little savings or investment, outmoded tools and technologies, and major structural problems in our economy. The stakes are high if America is to retain its position at the top of the global heap: the rebuilding effort must proceed from both the top down (national level) and the bottom up (local level).

International Business Trends Affecting the Southern Tier

America led the post-World War II reconstruction in Europe and provided economic and technological assistance to many developing countries without realizing that the nation's technological advantage in a wide range of industries would dwindle as rapidly as it has. Japan's post-war economic resurgence began with a strategic plan for acquiring technological prowess. Moreover, a constitutional prohibition on defense-oriented investment enabled it to dedicate its best and brightest to perfecting consumer-oriented goods and invest in research and development likely to yield commercially viable results. Germany rebuilt under similar circumstances. During the 1980s:

- While corporate America was preoccupied with leveraged buy-outs and acquisitions, competition from foreign rivals, particularly from Japan, Korea, Taiwan, Singapore, and the Western European countries

intensified. By the later half of the decade, foreign rivals took control of a big piece of the domestic market in several industrial sectors. Unlike many American companies, foreign competitors spent the 1980s enhancing their competitiveness through research and development, improved manufacturing processes and human resources training, supported by investors who took a long view towards attaining returns.

- In the wake of capitalism's ascension as the economic system of choice, the international battle ground has changed from border and ideological disputes to market share, manufacturing jobs and other elements which strengthen or weaken nations' economies. The irony is that the U.S. has been caught unaware as new players in the world economy emerged. While the U.S. was busy ensuring its military superiority, other countries unburdened by the need to maintain a strong defense were pursuing other investments and courses of action which left them better poised to take advantage of today's global economy.
- The world economy no longer revolves around the United States' ability to absorb foreign products and supply goods to other countries which can afford them. Three economic giants now call the world home: the United States, the European Community and the Pacific Rim. Consequently, the old systems governing the world economy have become out-moded as new trading blocks emerge and cheaper transportation costs, communications and other technological advancements reduce practical, economic, and regulatory trade barriers.
- The term "globalization" thus refers to more than inter-country economic competition. It encompasses:
 - the spread of formerly integrated manufacturing functions to locations around the world — where raw materials are obtained in one country, processed in another, machined in a third, assembled in a fourth and sold in a fifth. Similarly, foreign firms now operate plants in the U.S. and vice versa;
 - changes in what are considered "export" industries — the United States now exports such service sector products as accounting and advertising expertise and tourism resources overseas;
 - partnerships between domestic and foreign companies engaged in complementary or competing endeavors;

- emergence of new trading blocks, for example, the European Community and the North American Free Trade Alliance between Mexico, Canada and the U.S.;
- availability of new markets around the globe, as "second world" countries prosper and formerly communist countries embrace capitalism and the free market system.

The consequence of globalization for American companies is, quite simply, increased competition from inside and outside of the United States. Maintaining financial health in the face of these new and intricate changes presents U.S. companies with an immense challenge most are still struggling to meet. Southern Tier businesses are no exception.

Increased Competitiveness Worldwide

Since the end of World War II, Americans have defined global competition in military and ideological terms and largely limited the players to the United States and the former USSR: our nuclear warheads vs. their armaments; democracy vs. communism; capitalism vs. centralized economic planning, etc. Historically, companies prospered if they controlled more resources than the competition: superior natural, human, technological and capital resources would, in combination with good management, lead to success. Profits could either be reinvested to pay for changes required to stay competitive or be "thrown off" (redistributed) to give owners, workers and stockholders short-term returns. As discussed previously, many United States firms chose the latter course in recent years, by cutting research and development budgets and postponing retooling in a short-sighted effort to save money. These chickens came home to roost during the 1980s, when other competing companies, particularly those located in countries which rewarded re-investment and research and development, pushed forward with an eye on long-term rewards, and increased their competitiveness and surpassed their U.S. counterparts.

- The U.S approach to industrialization relied on mass production. Mechanized assembly lines cranking out low-cost products paved the way to the superior standard of living Americans enjoy. However, the tremendous investment in machinery this approach required led to a lack of flexibility; with so much capital tied up in production equipment, varying products became an expensive proposition.
- As machinery improved, manufacturing became more portable and the ability to provide cheap labor became the nexus of competitiveness. However, the industries commonly cited as the high growth areas of the 1990s — biotechnology, micro-electronics, new materials, avionics, robotics, and computer hard- and soft-ware — are all technology and human resources-dependent endeavors. Success will accrue to those who can marshall people with these skills, regardless of where they are located.
- Cost reduction and the cult of the lowest bidder may make sense on a short-term basis but is not an end to itself and should not be pursued at the expense of reliability, flexibility and customer service. As consumers become increasingly sophisticated, companies must identify new markets and market niches at home and abroad and serve them well.
- Competitiveness — a moving target — is thus a function of the quality of product, process, human resources, and business technologies. In addition to management and other off line functions, the latter includes gathering intelligence about markets as well as corporate rivals' practices and products.
- Companies that wish to maintain or enhance their competitiveness must commit to the following courses of action:
 - Investment in product, process and business technologies, including collaborative ventures when appropriate;
 - Research in customers and markets, including new overseas opportunities and niches;
 - Benchmarking — understanding and improving the state of the art for both products and processes (including management, customer service, etc) even when the best practices have been developed overseas or at companies engaged in non-related endeavors;

- Workforce skills training and employee involvement, as opposed to a "top down" management approach;
- Rigorous quality control and responsive customer service;

Many Southern Tier companies are pursuing these strategies, for example, by adopting just-in-time inventory systems or minimizing their isolation from customers, suppliers and competitors. However, it is the larger companies (e.g., IBM and Corning, Inc.) which can dedicate the resources to these areas and the very small flexible firms which can effect change easily who appear to be leading the pack.

Harnessing Technology

Now that technology, engineering expertise and sheer brain power are the key ingredients for success, competitive advantages are largely man-made.

- "Reverse engineering" has become a staple of competition: rather than investing in inventing new products, fortunes are made perfecting others' primary research and essentially duplicating commercially-viable items, e.g., IBM PC clones, perhaps using a more cost-effective process.
- Technology — as applied to both product development and process development — is a steady, predictable source of competitive advantage, unlike low wages or advantageous currency exchange rates, which may shift and are beyond the control of private firms. Broadly defined, manufacturing technology includes not only new products and processes, but also industrial modernization and expertise in using equipment, organizing procedures and managing people.
- The U.S., in part due to the strengths of its university system, still excels at technological and product innovation, but foreign companies repeatedly surpass our ability to bring new, improved versions of products to market. The difference between product research and process research is significant. For years, Americans dominated product research, inventing scores of items we now consider essential (e.g., telefax machines and semi-conductor chips) on the assumption that product monopolies could be achieved. Since they could not compete on a product development level, many foreign firms invested in process research and now dominate the aforementioned markets: those who can

refine and then build a better product cheaper can capture markets from the original inventors. The product vs process distinction applies to low tech products as well. Using robots in warehouse operations, automobile manufacturing, or food processing are examples of exploiting high technology in the service of a relatively simple good or function.

- By contrast, American firms' "rugged individualism," expressed through near total reliance on self-generated ideas and a reluctance to adopt and refine outside ideas or apply technologies developed elsewhere (including Federal laboratories) to commercial applications, impedes their ability to profit. The attention paid to benchmarking and just-in-time manufacturing processes in recent years may signal an end to this attitude. Nonetheless, U.S. companies, on the whole, rarely form strong collaborative relationships. In addition to cherished free market ideals, fears about violating anti-trust and intellectual property laws contribute to corporate reluctance to embark on joint ventures. This reticence to work with competing and complementary companies and institutions precludes such useful strategies for sharing information and advancing technology as forming research and development consortia.
- The next wave in processing technology may be "agile manufacturing," first developed by Lehigh University's Iacocca Institute and now being refined by the Agile Manufacturing Enterprise Forum. Agile manufacturing will lead to "virtual" corporations which employ concurrent engineering, in which process-oriented development teams manage all production components simultaneously — from design to manufacturing planning to marketing — to avoid the costs and delays which ensue when the traditional sequential approach necessitates design changes late in the process. AMEF forecasts vast improvements in speed-to-market, productivity, quality, and cost.

The technological and organizational changes U.S. companies have implemented to increase competitiveness and productivity also necessitate training, even though many firms devote their attention to capital investments in equipment or research rather than human resources. For example, the shift to Japanese-style "lean management" which depends on workers to identify and anticipate problems and organizes employees in semi-autonomous groups, necessitates several types of training. Workers must not only learn new skills for this organizational system to work (e.g., cross-training to minimize

absenteeism's effect on productivity), but must also get help in overcoming corporate culture barriers to success, e.g., breaking down the walls between management and non-management.

CHALLENGES FACING ECONOMIC DEVELOPMENT ORGANIZATIONS

The Southern Tier's economic development delivery system is essentially sound. The existing organizations are staffed by an able corps of dedicated professionals working hard to help local businesses, despite chronic funding pressures and a limited number of staff relative to the large areas they serve. The Southern Tier's economic development organizations face two separate sets of challenges: those related to their own workings and those related to providing services to existing and start-up Southern Tier businesses.

Inter- and Intra- Agency Challenges

The effectiveness of the existing economic development organizations could be enhanced with increased attention to the following matters:

- Improving inter-agency coordination: between local and regional economic development organizations, between regional entities, between Southern Tier organizations and state and federal agencies, and between Southern Tier organizations and Southern Tier educational institutions and human resource training providers;
- Fostering leadership within agencies, within the private sector and among elected officials: creating a corps of individuals committed to and interested in economic development issues;
- Eliminating duplication of services;
- Clarifying agency missions and articulating the roles and responsibilities best handled by local and regional organizations, for example:

Local economic development agencies can remain responsible for local economic development projects, including securing an appropriate level of locally generated funds for these projects.

Regional economic development organizations should assume responsibility for:

- regional economic development strategic vision planning
- large scale or high impact project
- dissemination ("funnel") of regional, state and federal funding
- forums for higher level issues and policy discussions
- stewardship of the economic development system;

Regional, state, and national agencies and organizations provide economic development support for specialized needs, including:

- technology development
- export assistance
- market and economic intelligence
- training and retraining
- high risk or high volume financing requirements

All of this boils down to approaching economic development on a regional basis to a greater extent than has been evident in the past. Regional economic development is based on the following principals:

- The fundamental mission of the overall system is to provide the private sector with programs, services and facilities that induce them to change and stimulate investment in modernization and other competitiveness-enhancing activities so that they not only survive, but flourish;
- Economic development services are provided through a coordinated system of organizations operating at the local, sub-regional, state and national levels;
- The system emphasizes producing long-term regional economic development results;
- Each organization understands and takes responsibility for its appropriate role within the economic development delivery system and provides

quality (best practices) services competently, professionally, and in a timely manner.

- The organizations within the system communicate with one another, such that each organization understands the purpose, goals and programs of its counterparts. Trust characterizes the system providers' relationships. As a whole, the organizations view themselves — and are viewed by others — as partners for a common purpose.

The bullet points above describe how the existing system is supposed to work and how public and private sector people concerned with economic development want it to work. The challenge is translating this vision into standard operating procedures: making it work.

Economic Development Challenges

Changing global economic forces have compelled American corporations to adopt a proactive stance towards technology and modernization to stay competitive. Consequently, the economic development profession must now also acquire (or gain access to) new competencies which help companies change how they do business through the incorporation of new technologies and "best practices." This represents a paradigm shift in the practice of economic development: from providing real estate and financial assistance to providing technological, market, management, and economic intelligence. In order to play their new role in economic development, practitioners must adjust "the system" — organizations, programs and policies — to meet contemporary demands of their profession in an efficient and effective manner. This requires:

- Emphasizing customer service and obtaining additional input from the clientele;

- Streamlining existing programs available through the State of New York and eliminating duplication, e.g., between programs offered by NYSDED, UDC, JDA, and NYSSTF²;
- Increasing participation in existing programs;
- Staying abreast of new federal programs and obtaining funding for economic development through them, for example, the various Advanced Research Projects Agency programs available to help defense-dependent companies and communities.

Technical challenges include helping companies to:

- Form collaborative working relationships which impart synergistic benefits to participants and to the Southern Tier economy, including overcoming barriers to the formation of networks and consortia.
- Address competitiveness issues, by identifying core competencies, investing in human resource training, adopting TQM and other quality controls, improving customer service, conducting market and product research, benchmarking, etc.
- Reduce their dependence on defense procurement and overcome barriers to transition, including:
 - lack of a strategic diversification plan and/or commitment to diversification by top management;
 - limited understanding about commercial market operations;
 - difficulty in identifying marketable commercial products;
 - uncertainty regarding whether to enter an existing market or pursue new areas;

² We note that proposals to replace the UDC, JDA and NYSSTF Boards with a single unified Economic Development Board and consolidate grants programs are among the reforms to the State's economic development delivery system recommended by Assembly Democrats in May, 1993.

- trouble finding interim financing to support transition-related operations until the company's new initiatives begin to generate income.
- Modernize plant and equipment and obtain access to human resource training;
- Obtain access to technology available from the federal laboratory system and federal technology transfer agencies;
- Expand locally by ensuring the availability of sites, buildings and infrastructure (the traditional approach to economic development).

OVERVIEW OF KEY STRATEGIES

The regional economic development strategies contained in this report represent:

- specific recommendations to help the Southern Tier overcome barriers to regional economic growth and development;
- concrete actions to further on-going projects, implement new initiatives and capitalize on strengths and opportunities available to the Southern Tier Region.

The strategies reflect the conviction that the Southern Tier's economic recovery will stem from local success in forging a partnership between the public sector and business/industry to create the climate necessary for the expansion of private sector investment and job creation. In addition, this report reflects our judgment that the Southern Tier Region contains many attributes favorable to economic development and growth. The economic development strategies are based on the following premises about how the Southern Tier Regional economy functions.

1. The Southern Tier Region's economy is well diversified and basically sound, despite short-term impacts from DOD cut-backs and the recession. The principle threat to the Southern Tier's long-term growth lies in the Region's collective inability to fully mobilize and leverage its many valuable natural, economic, institutional, human and other resources for local and regional economic development purposes.

2. This report also contends that the Southern Tier Region does not behave as a region at present; it functions as several regions which both overlap and spill beyond the Southern Tier's borders. The existence of multiple overlapping jurisdictions (e.g., state agencies) both reflects and exacerbates the situation.

Despite the fact that the Southern Tier does not behave as a region in an economic sense, its present boundaries make sense from an economic development perspective. The potential synergy available from the Region's industries, which specialize in related areas, and its research institutions, which specialize in these same fields, justifies its definition. Moreover, the Region's transportation network could also enable the Southern Tier to function as a legitimate economic region in the future.

3. The basic economic forces operating in the Region are dynamic, rather than stagnant. Moreover, they require a shift in emphasis by both the Region's public and private sectors in order for the Southern Tier (and its industrial base) to move from a mode of survival to a mode of success in the future.

Strategies to further regional economic development in the Southern Tier must respond to the following major goals:

- Overcome the barriers to coordinated and effective economic development on a regional basis;
- Motivate corporate leaders to take the steps necessary to meet the challenges posed by the competitive global marketplace.
- Leverage the Southern Tier's vast industrial, technological, educational, research, and human resources.

The overall objective of the economic development community should be:

- **To help the private sector help itself to attain ongoing competitiveness in the global marketplace and capture new business opportunities.**

Consequently, the strategies must be designed to induce industries to change, as well as to stimulate private initiative and investment.

It should be noted that the primary responsibility for achieving and sustaining competitiveness and making strategic investments toward those ends must remain with

the private sector. However, federal, state and local government incentives, if properly designed and used, can induce companies to change and enable government to help foster the climate necessary to help the private sector realize its objectives. The economic development strategies crafted for the Southern Tier Region must also ensure that the state functions as an effective economic development partner to maximize the Region's prospects.

New and unified approaches will be necessary for the Southern Tier Region to capitalize on its unique resources and to realize new economic opportunities. Meeting the Southern Tier's future challenges requires a strong commitment by the public and private sectors to work together — a partnership between and among private sector interests, counties and other sub-units of government — in support of Region-wide economic development efforts and initiatives. Unless these alliances provide leadership and capitalize upon the available resources to remove barriers to economic growth and prosperity, the impact will be limited.

Strategy Organization

The strategies addressing these issues contained in Section VI have been organized into the following major topics:

- Improving the Components of the Economic Development Delivery System (subject categories noted with letters A-C)
- Expanding Regional and Local Readiness for Economic Development (D-F)
- Meeting the Competitiveness Challenge (G-J)
- Pursuing Economic Development and Diversification Opportunities (K-O)

Each strategy received two rankings reflecting its:

- Priority (high, medium or low);
- Difficulty of Implementation (high, moderate or low)

In addition, one or more agencies, organizations or institutions best suited to implement each strategy are noted, including Southern Tier businesses. The entities charged with implementation responsibility fall into four broad categories:

- I. Economic Development Organizations**
- II. Private Sector Business and Industry**
- III. Educational Institutions**
- IV. Units of Government**

In many cases, strategies are assigned to organizations in more than one category. The summary matrix on the following three pages lists each strategy in the order presented in Section VI. The matrix notes each strategy's priority and difficulty ratings and provides a place for readers to note their own assessments of the strategies' importance and ease of implementation.

This Executive Summary presents condensed descriptions of only the most important of the many strategies contained in Section VI of the full report. Readers are encouraged to review Section VI for additional details and strategies. These strategy synopses are organized according to the groups arrayed above which must assume primary responsibility for implementation. Readers should keep in mind that many of these critical strategies require participation and cooperation by more than one group of organizations (e.g., economic development entities and educational institutions).

Companion matrices presented in later pages array the strategies according to the group of organizations assigned primary implementation responsibility. These charts show the primary organization responsible for implementation and list other entities which should be involved in the process. Strategies which require cooperation between organizations from more than one of the four groups are indicated with an asterisk.

SUMMARY MATRIX

Paragraph	Strategy Title	Responsibility			Strategy Ranking		Your Ranking	
		Econ Dev.	Ind/Bus	Educ.	Gov't.	Priority	Difficulty	Priority
A1	Launch Leadership & Team-Building Programs for Econ. Dev. Prof. & Elec. Off.	♦	♦	♦	♦	H	M	
A2	Make the Economic Development System User-Friendly	♦				M	M	
B1	Establish a NYSED Southern Tier Branch Office in Western Sub-Region	♦				H	L	
B2	Expand the NYSED Southern Tier Regional Office Staff	♦		♦		H	M	
B3	Improve the NYSED Southern Tier Regional Office Quarters & Equipment	♦				L	M	
B4	Re-Focus on UniPEG's Core Mission	♦				H	L	
B5	Increase the UniPEG Board's Technological Orientation	♦				H	M	
B6	Limit UniPEG Involvement in Non-Technology Matters	♦				H	L	
B7	Overcome UniPEG's Credibility Gap	♦				H	L	
B8	Increase IEP and ITiS Participation	♦				H	M	
B9	Focus on Strategic High Tech, Ind. Sectors and Small/Mid-Sized Companies	♦				M	L	
B10	Identify Regional Technology and Product Development Opportunities	♦				M	H	
B11	STWCA: Utilize I/CEM Resources	♦	♦			H	L	
B12	STWCA: Pursue Additional Sources of Funds	♦	♦			M	H	
C1	Improve Program Marketing	♦	♦			H	M	
C2	Consolidate Related Programs	♦	♦			M	M	
C3	Streamline Programs' Application Processes	♦	♦			M	M	
C4	Give the Regional Offices More Funding Autonomy	♦	♦			M	M	
D1	Strengthen the Composition of the Regional Economic Development Council	♦				H	H	
D2	Revitalize the Regional Economic Development Council's Original Mission	♦				H	H	
D3	Staff and Fund the Regional Economic Development Council	♦				H	H	
D4	Create a Regional Economic Development Corporation	♦				H	L	
D5	Explore Changing the Regional Planning and Development Board Service Areas	♦				H	H	
D6	Create Commission to Address Watershed Issues on a Regional Basis	♦	♦			H	M	
D7	Organize to Implement This Strategy	♦	♦	♦	♦	H	H	
E1	Prepare Long-Range Vision Plans	♦	♦	♦	♦	M	M	
F1	Assess the Need for Public Transportation on Region- or Sub-Region Basis	♦	♦	♦	♦	M	M	
F2	Improve Telecommunications System	♦	♦			L	H	
F3	Develop Information/Data Superhighway Infrastructure	♦				L	H	
F4	Complete Infrastructure Projects in Broome County	♦				H	H	
F5	Build Two Infrastructure Projects in Chenango County	♦				H	M	
F6	Expand Water and Sewer Services in Chenango County	♦				M	M	

SUMMARY MATRIX
(continued)

Paragraph	Strategy	Title	Responsibility			Strategy Ranking		Your Ranking	
			Econ Dev.	Ind/Bus	Educ.	Gov't	Priority	Difficulty	Priority
F7	Develop Industrial Sites in Tioga County		♦		♦		M	M	M
F8	Provide Industrial Sites and Water Line Expansion In Southern County		♦		♦		M	H	
F9	Potential Infrastructure Improvements Projects Elsewhere in Southern Tier		♦		♦		H	M	
G1	Elements of Corporate Response to Competitiveness		♦		♦		H	H	
G2	Help Companies Increase Their Competitiveness		♦		♦				
G3	Expand IEP/TIES Program in the Southern Tier		♦				H	M	
G4	Increase Participation in NYS Modernization Programs		♦				H	M	
H1	Obtain Federal Funds for Additional Assistance to Defense Co. in Transition		♦				H	M	
H2	Obtain Dedicated Federal Funds to Support Defense Diversification Program		♦				H	M	
H3	Obtain ARPA Funds to Establish Manufacturing Outreach Center		♦				H	M	
H4	Establish Southern Tier Regional Association of Colleges and Universities		♦				H	L	
H5	Form More University-Industry Partnerships		♦				H	H	
H6	Emphasize Applied Research		♦				H	L	
H7	Implement Policies to Encourage University Entrepreneurs and Tech. Diffusion		♦				M	M	
H8	Become Information Brokers		♦				M	M	
H9	Continue Efforts to Establish Centers for Advanced Technology (CAT)		♦				L	H	
J1	Obtain Funding for the Alliance for Workforce Development		♦		♦		H	H	
J2	Obtain Additional Funding to Expand the Capacity of C3		♦		♦		H	H	
J3	Reinforce the SUNY-DED Partnership		♦		♦		H	L	
J4	Designate a 'One-Stop' Agency for Workforce Training Information and Referrals		♦		♦		H	L	
J5	Expand BOCES Teacher-to-Teacher and Teacher Training Programs		♦		♦		M	M	
J6	Pursue Forthcoming Federal Apprenticeship Programs		♦		♦		M	M	
J7	Promote Human Resources Training Aggressively		♦		♦		M	L	
J8	Provide Remedial and Literacy Training Using Employment Prep. Education Funds		♦		♦		M	L	
J9	Amend the TAP Law		♦		♦		L	L	
J10	Challenge the DOI to Establish Oc. Skills Competency Assessment Standards		♦		♦		L	H	
K1	Facilitate the Formation of Networks and Consortia		♦				H	H	
K2	Nurture Intra-Southern Tier Commerce		♦				H	M	
K3	Help Southern Tier Firms Gain Access to Centers for Advanced Technology		♦				M	L	
K4	Revitalize Southern Tier Central Business Districts				♦		M	H	
K5	Stimulate Wholesale Trade and Services Sectors		♦				M	H	
K6	Capitalize on Relationships Between Southern Tier Entities and Japanese Companies		♦				M	H	
K7	Encourage Establishment of "In-Plant Incubators"		♦				M	L	
K8	Teach Entrepreneurial Skills				♦		M	L	

SUMMARY MATRIX
(concluded)

Paragraph	Strategy	Title	Responsibility			Strategy Ranking		Your Ranking	
			Econ Dev	Ind/Bus	Edu. Gov't	Priority	Difficulty	Priority	Difficulty
K9	Export the Knowledge Created at C3		♦		♦	L	M		
K10	Convert Summer Home Dwellers into Local Business Owners		♦		♦	L	M		
L1	Conduct Market Assessment for Alternative Commodities and Processing Technologies		♦			H	L		
L2	Recommended for the Lansberry Site by Cornell		♦						
L3	Facilitate Food Processors' Diversification Efforts		♦		♦	M	M		
L4	Encourage Local Testing of New Bio-Enhanced Crops		♦		♦	M	L		
L5	Request that Cornell Provide Scholarships in its Food Executive Program		♦		♦	M	L		
L6	Work with NYSEG to Increase Efficiency of Dairy Operations		♦			L	L		
M1	Initiate Strategic Wood Products Planning on a Region-Wide Basis		♦			H	M		
M2	Conduct Targeted Information Campaign		♦		♦	H	L		
M3	Encourage Formation of Southern Tier Wood Products Alliance		♦			H	L		
M4	Attempt to Fill in Gaps in the Value-Added Chain		♦		♦	M	H		
M5	Investigate Establishing a Wood Products Industry Research and Design Center		♦		♦	L	H		
N1	Organize for Tourism Development		♦		♦	H	M		
N2	Develop a Destination Data Base		♦			M	L		
N3	Use the Destination Data Base to Increase Coordination and Improve Service Delivery		♦			M	L		
N4	Provide Hospitality Training		♦		♦	M	L		
N5	Identify Additional Attraction Development Opportunities		♦			M	H		
N6	Explore the Merits of Forming a Southern Tier Festivals Corporation		♦			L	M		
O1	Consider Pooling Resources				♦	H	H		
O2	Establish a Region-Wide Revolving Loan Fund for the Southern Tier		♦		♦	H	M		
O3	Enlist Banks to Provide Access to Capital		♦			M	H		
O4	Enlarge Scope of Issues Addressed by Councils of Government				♦	H	L		
O5	Consolidate Services		♦		♦	M	H		
O6	Consolidate Purchasing				♦	M	L		
O7	Establish Regional Safety Equipment Standards				♦	M	L		
O8	Establish the Regional Graphics Standards Group				♦	L	L		
O9	Consolidate Municipalities				♦	L	H		
O10	Increase Awareness of the Southern Tier at Home		♦			M	L		
O11	Enlist the Help of the Media				♦	M	L		

I. Priority Strategies to be Implemented by Economic Development Organizations

Since the expertise now required for new approaches to economic development has become highly specialized, a regional approach represents the only way to provide services cost-effectively. Moreover, a regional approach enables economic development practitioners to work together in a manner which parallels the distribution of the benefits which accrue from prosperity and economic growth. Lastly, a regional approach gives practitioners a broader base of resources to leverage. There is an urgent need to channel the energies of individuals, institutions and elected officials concerned with or engaged in economic development activities in appropriate directions. To achieve this difficult but important objective we recommend taking action to:

Launch Leadership and Team-Building Programs for the Region's Economic Development Professionals and Elected Officials

Under the auspices of the DED-SUNY Partnership, the NYSDED Southern Tier Regional Office should arrange for the appropriate regional education institution(s) to develop educational programs in economic development for the Region's practitioners and elected officials. The thrust of the program geared toward economic development practitioners will be to:

- understand competitiveness issues better
- recognize that many solutions lie at the Regional level
- promote inter-agency cooperation and foster trust
- identify ways to work together to help Southern Tier companies meet the requirements of the 21st century economy
- develop an appreciation for other organizations' abilities and contributions to client services

The programs geared towards elected officials would teach economic development fundamentals so that the Southern Tier's elected representatives would share a foundation of basic knowledge.

Pursing Technology-Based Economic Development

The University-Industry Public Partnership for Economic Growth (UnIPEG) will become increasingly important as the Southern Tier begins to focus on technological

economic development. It is through UniPEG that the Southern Tier can more effectively leverage the technological and research strengths of its universities and private sector companies. Recommendations addressing UniPEG's future role within the Southern Tier economic development delivery system include:

Re-focus on UniPEG's Core Mission

UniPEG must return to its primary economic development purpose: technology development, transfer and diffusion (including its role as the local provider of the Industrial Effectiveness Program and the Industrial Technology Extension Service). Reducing UniPEG's tendency to become involved in a wide range of regional economic development issues will free up staff time for more appropriate complementary activities. These could include: providing technical assistance on intellectual property matters, ISO 9000 certification, National Institute of Science and Technology data bases, and other existing and future technology-related activities.

Focus on Strategic High Technology Industrial Sectors and Small/Mid-sized Companies

UniPEG's limited resources should be directed toward those strategic high technology industrial sectors which hold the most promise for the Southern Tier (synergy between private companies and university strengths). Furthermore, the organization should continue directing its business assistance efforts to small and mid-sized companies which lack the capacity to obtain UniPEG-type services and expertise on their own.

Increasing NYSDED's Effectiveness

To enhance the State's role in local and regional economic development and increase its effectiveness, we recommend that NYSDED:

Improve Program Marketing

Economic development professionals at the regional and local levels cannot keep up with changing program content and requirements. While consolidating related programs and simplifying application procedures will help, NYSDED needs to improve its program information dissemination procedures and involve local economic development practitioners in its marketing efforts. NOTE: The local and regional economic development professionals serve as the principal

program information source for the private sector. Consequently, private sector understanding of the NYSDED assistance available will also be improved.

Adopting a Regional Approach to Economic Development

While the Southern Tier's local economic delivery system is reasonably well-structured, the existing avenues to a regional approach to economic development need strengthening. Without exception, successful regions have established region-wide bodies which provide leadership, create new ideas and bring their stature to bear upon problems and opportunities of regional significance. The Southern Tier presently lacks a regional entity which enables local private sector leaders and publicly-supported economic developers to influence the Region's future and provide implementation support: to take charge of their economic destiny. The Southern Tier's private sector leaders need to have a stake in the Region's economic health (and feel ownership in efforts to improve it) which extends beyond their own immediate business health. Similarly, the economic development providers need a vehicle which will enable them to plan and work together on regional initiatives.

There is a clear need to empower the private sector for economic development and establish a Region-wide organization which can:

- Create a de-politicized environment which will enable the Southern Tier to function as a Region (e.g., resolve East-West conflicts);
- Bridge the existing gaps between the Region's various economic development organizations and unite them in common purpose;
- Involve the Region's top private and public sector leaders and economic development practitioners;
- Generate ideas which leverage the Southern Tier's assets for the Region's benefit;
- Set priorities for Region-wide project initiatives and assure their implementation;

- Lobby and obtain access to state and federal decision-makers to ensure their continued support (and funding) of the Southern Tier and its initiatives;
- Provide constructive criticism of existing and proposed programs and policies promulgated by state and federal government.

The Southern Tier already has an organization designed to fulfill these functions: the Regional Economic Development Council. However, it needs to be somewhat revamped to meet its full potential. Based on our experience and our research in the Southern Tier, we suggest that the Region:

Strengthen the Regional Economic Development Council

The Regional Economic Development Council can become the nexus for a public-private partnership for the Southern Tier which involves representatives in state, county, and local economic development entities, elected officials and key private sector leaders. Accomplishing this transition necessitates a gradual restructuring of the Council's membership. The membership could also include (or continue to include) labor union officials, top representatives of the Region's academic institutions and major non-profits, locally-elected state/federal representatives (past and present), and even individuals from outside of the region, i.e., representatives from the Lee Iacocca Institute, Ben Franklin Partnership, etc.

The Regional Economic Development Council was conceived as a proactive partnership between the public and private sectors geared towards identifying economic development strategies of regional importance and improving the delivery of economic development services. Its creation postulated a lobbying role and an opportunity for representatives of the public and private sector to join forces for regional economic development. However, the Regional Economic Development Council has not been able to fulfill all aspects of its original mission, primarily due to its members' time constraints, the distances involved and the organization's lack of staff. If the Regional Economic Development Council can return to its original mission and take on these important functions, the Southern Tier will benefit immensely.

The NYSDED Southern Tier Regional Office provides staff support to the REDC. However, REDC needs at least one dedicated staff person to fulfill its mission. REDC needs a top-flight economic development professional to serve as an Executive Director, answerable to the Council. This person should be able

to address the technical and competitiveness issues characterizing the 21st century economy and be able to provide leadership to the Region on contemporary economic development matters.

Create a Regional Economic Development Corporation

The Southern Tier lacks a region-wide organization of planning and economic development professionals. Efforts in the Southern Tier over the years to create such an organization never came to fruition, although there appears to be some momentum now for implementing this approach. The enabling legal work has been completed, and interest in the idea has revived. The economic development corporation would likely be comprised of the nine county industrial development agencies, the New York State Gas & Electric Company, and the larger Local Development Corporations in addition to the Rural Development Agency and the two Regional Planning Boards which serve the Southern Tier.

Organize to Implement This Strategy

Implementing the ideas contained in this report represent a massive effort. We recommend that the Southern Tier's public and private sector leaders (including its state elected officials) convene a session to begin planning the implementation process. We suggest approaching IBM about using its project planning software and "Decision Room" to help organize implementation. Key to implementing this strategy will be the identification of a coordinating agency or body. Candidates include the NYSDED Southern Tier Regional Office and the Regional Economic Development Council.

Empowering economic development at the regional level requires that additional funds be made available for projects with regional significance.

Establish a Region-Wide Revolving Loan Funds for the Southern Tier

Unlike most of the other NYSDED Regions, the Southern Tier lacks a regional revolving loan fund to provide financing for projects of regional significance. This fund should be initially capitalized by the Small Business Administration, the Economic Development Administration, and NYSDED until promised new Clinton Administration programs take shape. Initial funding should total at least \$2 million. Economic development practitioners should decide with which region-wide entity loan approval authority should rest. In other NYSDED Regions (e.g., Finger Lakes), the region-wide revolving loan funds are managed by Regional Economic Development Corporations. In addition, special-purpose

revolving loan funds to help Minority and Women-Owned Business Enterprises or dislocated defense workers could be developed.

Enlist Banks to Provide Access to Capital

The public sector can work with private sector financial institutions to address the gaps in the capital markets which affect small enterprises. These programs enable banks to make funds available to small companies through risk-sharing.

Helping Companies Increase Their Competitiveness

In addition to helping individual companies devise plans for the future, government can take steps to provide guidance and incentive to companies reluctant to pursue change for the better.

Help Companies Increase Their Competitiveness

In the context of the competitiveness-enhancing strategies outlined in the business and industry section on subsequent pages, we recommend the following:

- The NYSDED Regional office coordinate with UniPEG staff to compile case histories of companies that have undergone successful transition or effectively leveraged the available state programs to achieve specific objectives. Examples may be drawn from throughout the ten regions of New York and should be properly publicized.
- Consider creating a private industry leadership forum at the Regional or Sub-Regional level to: teach firms how to identify core competencies and conduct internal quality, product and process audits; organize a network of firms who can function as role models on increasing competitiveness and making a successful transition to new products or markets; expand business to business networking, common problem solving, local collaborations on projects/ideas, and; increase local procurement through formal and informal networking, and sharing of technical knowledge, specialized equipment, and production, laboratory and office space.
- Expand IEP/ITES Program Participation in the Southern Tier. NYSDED's Industrial Effectiveness Program has helped over 400 New

York companies diagnose their competitiveness problems and design and implement strategies to overcome them. ITES agents market the program and private sector consultants provide the advice and services. The program has been a great success throughout the State, with the exception of the Southern Tier.

UniPEG and NYSDED need to identify and overcome barriers to the use of these fine programs by Southern Tier companies, be they related to inadequate publicity, poor understanding of the programs, perceived bureaucratic burdens, or other impediments. UniPEG should establish goals for increased participation in both programs. NOTE: These programs are utilized extensively in the rest of the State. This suggests that the problem lies with the marketing effort and, perhaps, the delivery of services, but not with the programs themselves. In Long Island, LILCO offers reduced rates to companies which participate in IEP. NYSEG should be approached by NYSDED and UniPEG about setting up a similar arrangement to induce Southern Tier Firms to use IEP.

- Increase Participation in NYS Modernization Programs. Several NYSDED programs geared towards industrial modernization are also underutilized in the Southern Tier, including: DED's Empire State Manufacturing Service (ESMS), UDC's Small and Medium Business Assistance Program (SAMBA) and its counterpart for larger firms, the Expansion, Retention and Assistance Program (ERA). These programs may merit additional funding.

Obtain Federal Funds to Provide Additional Assistance to Defense Companies in Transition

NYSDED and NYSSTF should take the lead role in coordinating the State's (on behalf of the ten Regions as appropriate) efforts to obtain assistance through the following new federal programs: Defense Manufacturing Extension Program; Defense Dual-Use Extension Assistance Program, the Defense Advanced Manufacturing Technology Partnerships, the Dual-Use Critical Technology Partnerships and the Commercial-Military Integration Partnerships. The Southern Tier's needs are quite compatible with the goals of these federal programs. However, NYSDED must frame its applications for funding in a way that preserves implementation flexibility to maximize program impact.

Obtain Dedicated Federal Funds to Support the Defense Diversification Program

NYSDED's Defense Diversification Program is an excellent tool for helping companies reduce their dependence on the Department of Defense. However, at current funding levels, demand for program services outstrips DDP's ability to provide them. We recommend that NYSDED apply for federal funds through either the Technology Reinvestment Program or the Economic Development Administration to support this critical program and enable it to help more firms in the Southern Tier and other regions with economies seriously affected by defense companies. NOTE: The EDA recently approved a \$4.6 million award to target the DDP program to the Long Island area's defense companies.

Obtain ARPA Funds to Establish a Manufacturing Outreach Center

UniPEG has submitted an application to ARPA for \$500,000 a year for three years to support the creation of a Manufacturing Outreach Center (MOC). Under the MOC auspices a range of services will be provided directly to affected firms to help them better compete. Although the MOC would serve all firms, the application emphasizes the needs of defense firms.

Investing in Human Resources

Economic development and improved corporate competitiveness depends upon the strategic training and deployment of workers. High skilled jobs represent the return on investment in human resources. Consequently, human resources training efforts must respond to local corporations' needs and help them leverage their workers' skills to increase competitiveness and capacity. To better capitalize upon these and other education and training resources and programs available within the Southern Tier, we recommend the following actions be undertaken jointly by economic development organizations and educational institutions:

Obtain Funding for the Alliance for Workforce Development

Obtain Additional Funding to Expand the Capacity of the Center for Commercial Competitiveness

Reenforce the SUNY-DED Partnership**Designate a "One-Stop" Agency for Workforce Training Information and Referrals****Diversifying the Economy**

The goal of diversifying the Southern Tier Region's economy implies several simultaneous objectives:

- Enabling the Region's companies to become more competitive, thereby increasing their market share;
- Identifying new products and markets for existing industries within the Region, including those dependent on defense spending;
- Increasing the synergy among the Region's companies and other assets, e.g., natural, man-made and institutional resources;
- Providing new job opportunities for displaced workers employed by industries in the Region on the decline, including those dependent on defense spending, and assisting them in entrepreneurial endeavors;
- Facilitating the creation and growth of young companies in new emerging industries (usually resulting from technology advances) so they can create jobs;
- Reaping and keeping the spin-off benefits that accrue to the Region from both traditional basic sector industries and non-traditional sectors that import dollars into the community, such as tourism.

Economic diversification requires deliberate action by both the public and private sectors acting individually and in a coordinated strategic fashion. Although public sector actions can facilitate diversification, ultimate success depends upon the actions of the private sector.

External and internal forces threaten the Southern Tier's manufacturing base, as has been discussed in detail. Moreover, although the Southern Tier is known for its multi-national corporations, most of its manufacturers are small and mid-sized

enterprises. Though small firms can be more nimble than many large companies, their modest size and scant resources prevent them from learning about changes in markets and technologies quickly and/or acting upon their knowledge. Unfortunately, if small start-up companies cannot stay current — in technology, equipment, production processes, and human resources training — they may collapse after an initial success, just when they should be starting to realize their promise and begin to create jobs. Consequently, it is imperative that economic development practitioners direct additional efforts towards small and mid-sized companies, not large ones.

For firms of all sizes, economic development practitioners can help by identifying synergistic opportunities among existing companies and institutions. Synergistic opportunities benefit all participants. the sum of the efforts becomes greater than the value of the parts. The formation of inter and intra-industry networks, the creation of new supplier relationships and the organization of consortia and other joint ventures all represent synergistic opportunities which can be facilitated by economic development programs and practitioners.

Diversification efforts need not stop with the manufacturing sector. Expanding opportunities in any sector which increases the range of economic activity in the Southern Tier can be considered diversification even though multiplier impacts may be lower than those achieved through additional manufacturing. Diversification techniques can be adapted for the services, trade, and retail sectors, as well as those dependent on natural resources, such as agriculture, forest products and tourism. The strategies below identify steps Southern Tier private and public sector leaders can take to advance the diversification of the Region's economy.

Facilitate the Formation of Networks and Consortia³

The public sector cannot force the private sector to form networks and consortia; it can only encourage them. Private industry must take the lead to identify and follow through on opportunities for collaboration, make the investment before reaping the rewards. The notion of profiting through cooperation is enjoying increasing acceptance by American businesses as they struggle to compete.

The following elements are required:

- comprehensive data base describing firms' core competencies;
- system for disseminating information on technology developments (e.g., that available through the network of federal laboratories and NIST);
- technologically astute brokers who identify existing industrial clusters and associated inter- and intra-industry opportunities (products and markets) for productive collaborations. Brokers may later provide interim or permanent management services on behalf of all network members.
- model agreements addressing such issues as intellectual property protection for participating firms to refine and base their negotiations upon;
- access to technical and other assistance available as an incentive.

Within the Southern Tier, key players in the ceramics and electronics packaging industries are already working in concert through the Ceramics Corridor, Integrated Electronics Engineering Center, and the Industry-Cornell University Alliance for Electronics Packaging, respectively. The Region is home to several other industry clusters which could profit from forming consortia, including:

³

The terms "network" and "consortium" have become almost synonymous and are used interchangeably in this text. There are two types: those consisting of firms engaged in the same industry and those consisting of firms in different industries which collaborate in order to capitalize on applications or opportunities which require more than one area of expertise.

- Simulators
- Computer peripherals
- Laser technology
- Imaging technology
- Biotechnology
- Rail transportation
- Primary and Secondary Wood Products

Opportunities for productive collaborations between Southern Tier industries abound and include:

- Computer software and hardware/peripherals manufacturers
- Ceramics and electronics packaging industries
- Rail transportation and simulators
- Ceramics and engines/transportation
- Electronics and rail transportation
- Environmental monitoring and electronics
- Medical technology and simulators
- Imaging technology and computer hardware, simulators
- Optical components manufacturing and precision laser machining
- Bio-technology and agriculture, pharmaceuticals and environmental sciences
- Lasers, computers and forest products

UnIPEG is the logical agency to provide the technical assistance the private sector requires in order to promote network and consortium formations, due to its regional scope, relationships with higher education institutions, private sector board, technological orientation and diffusion mission, role as technology information brokers, and direct linkage with the NYSSTF. However, it is absolutely essential that this effort be closely coordinated with the NYSDED Southern Tier Regional Office.

Nurture Intra-Southern Tier Commerce

At present, many Southern Tier firms purchase goods and services from outside of the Region which are available from within. Sometimes these procurements signify long relationships with outside suppliers but, in other cases, they stem from ignorance about the breadth of goods and services available closer to home. The Southern Tier's economic development practitioners need to encourage local procurement at the regional level. The NYSDED's Southern

Tier Regional office should assemble and disseminate guides which profile local companies' core competencies and describes the goods they supply or purchase. This format enables both potential suppliers and customers to contact each other. The most efficient way to implement this strategy involves establishing a computerized data base with logical and extensive cross-indexing. Users should be able to access the system via modem. Preferably it should ultimately be integrated with parallel systems developed by other NYSDED regional offices to foster intra-New York commerce.

Conduct a Market Assessment on Alternative Commodities and Food Processing Technologies Recommended by Cornell

As part of this study, Cornell University prepared a report suggesting an array of new agricultural products and food processing approaches. However, a better understanding of the current status of these industries is required.

Facilitate Food Processors' Diversification Efforts

Farmers and food processors investing in new crops or product technology should be given technical and financial assistance through the available programs and resources, e.g., the agricultural extension service and the Pro-Dairy and (proposed) Pro-Fruit and Pro-Vegetable Programs.

Initiate Strategic Wood Products Planning on a Region-Wide Basis

NYSDED has supported special efforts to create and implement regional wood products development strategies. The Southern Tier Regional DED Office, in association with NYSDEC region foresters, should undertake a similar strategic approach for the Southern Tier. The two agencies should create a Regional Forest Products Development and Response Team as has been successful in the North Country. A joint effort between the Southern Tier Regional Office and the three NYSDEC foresters whose service areas include Southern Tier counties will help reduce the fragmentation of forest and economic development service delivery presently experienced by the Region's wood products firms.

Encourage Formation of Southern Tier Wood Products Alliance

Several wood products associations already operate within New York State. Encouraging local wood products companies to form a similar alliance (or,

better, a network) could foster cooperative ventures and sales between primary and secondary products manufacturers, overcome the inherent limitations experienced by the Southern Tier's small firms, provide a forum for disseminating information from such sources as the USDA Forest Service's Forest Products Laboratory and the Appalachian Export Center for Hardwoods (APEX), create an advocacy body, and be an efficient way to help members learn about advanced manufacturing technologies and best practices. While plans to form the Forestry Alliance of the Southern Tier (FAST) have been bandied about and , this project has yet to get underway. Funds to help form public-private partnerships are available through the U.S. Forest Service.

Attempt to Fill in Gaps in the Value-Added Chain

The Southern Tier's wood products industry is not vertically integrated. The Cornell Extension Service forest resources experts who prepared a report on the Southern Tier's wood products industry as an in-kind contribution to this report identified two key opportunities: veneer mill and fiberboard plant. Proactive efforts to attract these investments (and other secondary wood products manufacturers) should be undertaken by the Regional Development and Response Team.

The matrix which appears on the following three pages shows the economic development organizations which logically should assume a primary or supporting role during the implementation of these and other strategies detailed in Section VI.

ECONOMIC DEVELOPMENT

Multiple Resp.	Para- graph	Title	Primary Organization		Support Organizations
			NYSED	SUNY	
•	A1	Launch Leadership/Team-Building Progs for Ed. Dev. Prof. & Elec. Off.	NYSED	Local and Regional Providers	
	A2	Make the Economic Development System User-Friendly	NYSED		
	B1	Establish a NYSED So. Tier Branch Office in Western Sub-Region	NYSED		
•	B2	Expand the NYSED Southern Tier Regional Office Staff	NYSED	US DOI	
	B3	Improve the NYSED So. Tier Regional Office Quarters & Equipment	NYSED		
	B4	Re-focus on UnIPiG's Core Mission	UnIPiG		
	B5	Increase the UnIPiG Board's Technological Orientation	UnIPiG Board		
	B6	Limit UnIPiG Involvement in Non-Technology Matters	UnIPiG		
	B7	Overcome UnIPiG's Credibility Gap	UnIPiG		
	B8	Increase IEP and ITES Participation	UnIPiG		
	B9	Focus on Strategic High Tech Ind. Sectors & Small/Mid-Sized Companies	UnIPiG		
	B10	Identify Regional Technology and Product Development Opportunities	UnIPiG		
•	B11	STWCA: Utilize ICIM Resources	STWCA, BU		
	C1	Improve Program Marketing	NYSED		
	C2	Consolidate Related Programs	NYSED		
	C3	Streamline Programs' Application Processes	NYSED		
	C4	Give the Regional Offices More Funding Autonomy	NYSED		
•	D1	Strengthen Composition of the Regional Economic Development Council	NYSED		
	D2	Revitalize the Regional Econ Development Council's Original Mission	REDC	REDC, Governor's Office	
	D3	Staff and Fund the Regional Economic Development Council	NYSED		
	D4	Create a Regional Economic Development Corporation	NYSED		
•	D5	Explore Changing Regional Planning & Development Bd Service Areas	STC/STERPDB, ARC, EDA	NYSED	
	D6	Create Commission to Address Watershed Issues on a Regional Basis	NYSED		
•	D7	Organize to Implement This Strategy	NYSED		
•	F1	Assess Need for Public Transportation on Region- or Sub-Region Basis	Counties	REDS, Local Public & Private Sectors, Univ. & Coll.	
•	F2	Improve Telecommunication System	Counties	STC & STERPDB, NYSDOT	
	F3	Develop Information/Data Superhighway Infrastructure	STW, STC, STERPDB	STERPDB, Phone Companies	
•	F4	Complete Infrastructure Projects in Broome County	Broome County	IDA, Ec. Dev. Alliance, UnIPiG, STERPDB	
•	F5	Build Two Infrastructure Projects in Chemung County	Chemung County	IDA, City of Elmira, STCRPDB	
•	F6	Expand Water and Sewer Services in Chenango County	Chenango County	STERPDB	
•	F7	Develop Industrial Sites in Tioga County	Tioga County	County ED, STERPDB	
•	F8	Provide Industrial Sites and Water Line Expansion in Steuben County	Steuben County	IDA, STCRPDB	
•	F9	Potential Infrastructure Improvements Projects Elsewhere in So. Tier	Counties	STC & STERPDB, IDAs, NYSED	
G2	G2	Help Companies Increase Their Competitiveness	NYSED	UnIPiG, Local companies	

ECONOMIC DEVELOPMENT
(continued)

Multiple Respon- sible Para- graph	Title	Primary Organization	Support Organizations	
			NYSED	IDAs
G3	Expand IEP/ATES Program in the Southern Tier	UniPEG	NYSED	ITES, IDAs
G4	Increase Participation in NYS Modernization Programs	NYSED	NYSSIF, US EDA	
H1	Obtain Federal Funds for Add'l Assistance to Defense Co. in Transition	NYSED	NYSSIF, Federal Delegation	
H2	Obtain Dedicated Fed Funds to Support Defense Diversification Program	NYSED	NYSED, Universities and Colleges	
H3	Obtain ARPA Funds to Establish Manufacturing Outreach Center	UniPEG	NYSED, Universities and Colleges	
I2	Form More University-Industry Partnerships	UniPEG	Universities and Colleges	
I4	Implement Policies to Encourage Univ Entrepreneurs & Tech. Diffusion	UniPEG	Universities and Colleges	
I5	Become Information Brokers	UniPEG	Universities and Colleges	
I6	Continue Efforts to Establish Centers for Advanced Technology (CAT)	UniPEG	DOL, BU, Community Colleges	
J1	Obtain Funding for the Alliance for Workforce Development	NYSED, C3	DOL, BU	
J2	Obtain Additional Funding to Expand the Capacity of C3	NYSED	NYSED	
J3	Reinforce the SUNY-DED Partnership	SUNY	Economic Development Community, DOL	
J4	Designate a "One-Stop" Agency for Workforce Training Info & Referrals	NYSED	Ec. Dev. Community, DOL, PIC, Colleges	
J7	Promote Human Resources Training Aggressively	NYSED	IDAs, Local Industry and Business	
K1	Facilitate the Formation of Networks and Consortia	UniPEG, NYSED	NYSED	
K2	Nurture Intra-Southern Tier Commerce	IDAs	NYSED, Universities	
K3	Help So. Tier Firms Gain Access to Centers for Advanced Technology	UniPEG	NYSED	
K5	Stimulate Wholesale Trade and Services Sectors	NYSED	STWCA	
K6	Capitalize on Relationships Between So. Tier Entities & Japanese Cos	NYSED	NYSED, Local Industry	
K7	Encourage Establishment of "In-Plant Incubators"	IDAs	C3, SUNY	
K8	Teach Entrepreneurial Skills	NYSED	NYSED	
K9	Export the Knowledge Created at C3	C3	NYSED	
K10	Convert Summer Home Dwellers Into Local Business Owners	IDAs	NYSED, SUNY	
L1	Conduct Mkt Assessment for Alt. Commodities/Processing Technologies Recommended for the Loonberry Site by Cornell	Cornell Agriculture Ext.	Tioga County ED, NYSED	
L2	Facilitate Food Processors' Diversification Efforts	Cornell Agriculture Ext.	NYSED, Local Industry	
L3	Encourage Local Testing of New Bio-Enhanced Crops	Cornell University	Cornell Agriculture Extension	
L5	Work with NYSEG to Increase Efficiency of Dairy Operations	Cornell Agriculture Ext.	NYSEG	
M1	Initiate Strategic Wood Products Planning on a Region-Wide Basis	NYSD, NYSED	ITES, RCDS, IDAs, Local Industry	
M2	Conduct Targeted Information Campaign	NYSD, NYSED	ITES, RCDS, IDAs, Local Industry	
M3	Encourage Formation of Southern Tier Wood Products Alliance	NYSD, NYSED	ITES, RCDS, IDAs, Local Industry	
M4	Attempt to Fill Gaps in the Value-Added Chain	NYSD, NYSED	RDCs, Local Industry	
M5	Investigate Establishing a Wood Products Industry R&D Center	NYSD, NYSED	NYSSIF	
O2	Establish a Region-Wide Revolving Loan Fund for the Southern Tier	NYSD, EDA	IDAs	

ECONOMIC DEVELOPMENT
(concluded)

Multiple Res.	Para- graph	Title	Primary Organization	Support Organizations
*	O3	Enlist Banks to Provide Access to Capital	REDC	Banks
*	O5	Consolidate Services	Municipalities and Counties	STC and STERPIB
	O10	Increase Awareness of the Southern Tier at Home	Economic Dev. Community	NYSDED
	O11	Enlist the Help of the Media	NYSDED	

II. Priority Strategies to be Implemented by Business and Industry

The competitiveness dilemma America now faces evolved over two decades of negligence on the part of the nation's corporate leaders; the cure for the problems will not be administered quickly or painlessly. Responsibility for meeting the challenges posed by global competition must rest with the leaders of corporate America. Nonetheless, state and federal government can help by developing and implementing policies and programs that facilitate corporate America's ability to address specific competitiveness issues.

Industry's response to competitive issues in the Southern Tier has varied from aggressive and successful to passive and ineffectual. The Region's larger, multi-national firms — those with established identity and resources — have initiated actions ranging from down-sizing and restructuring to forming new alliances, developing new products and markets and identifying other strategic means to become and remain competitive. Notable examples of Southern Tier corporation which successfully engineered fundamental cultural changes in order to attain and maintain competitiveness include GE-Aerospace, Corning and Dresser-Rand. On the other hand, most of the Region's small and mid-sized companies — both those representing "traditional" sectors (industries sensitive to the forces of structural change), and those engaged in the defense and high-technology sectors — have been slow to comprehend the competitiveness issues that threaten their futures or to initiate essential changes to increase the viability of their operations. Entrepreneurs and managers of small and mid-size companies are too pre-occupied with day-to-day survival to even find the time to think about the future. They frequently do not know what to do or where to begin. Company leaders are often unfamiliar with practices, products, markets, and nuances of industries outside of their own area of expertise.

Attaining and Maintaining Competitiveness**Elements of Corporate Response to Competitiveness**

The strategic response components outlined below apply equally well to companies heavily dependent on single customer or market, e.g., DOD. Companies that wish to maintain or enhance their competitive position in the global marketplace must commit to the following courses of action:

- Institute a long range, comprehensive corporate strategic planning process and develop a short and a long term vision for the company reflecting its essential strengths and weaknesses;
- Identify corporate core competencies that honestly provide the company with an edge over other key competitors in a given function — manufacturing process, marketing, product design, new technology, etc. — as part of the strategic planning process;
- Instill corporate leadership commitment to make a change for a better future and follow through on that commitment no matter what;
- Invest in product, process and business technologies as appropriate to stay abreast of the competition;
- Identify and follow "Best Practice" examples that are relevant to the corporate business and will help maintain its competitiveness;
- Dedicate a team of key core professionals to new market/product research and to identifying new market niches, including foreign markets;
- Implement total quality management practices;
- Educate, support and nurture suppliers and sub-contractors to adopt and implement total quality management and best practices principals;
- Invest in employee training and education and involve employees in the decision-making process instead of following a traditional "top down" management approach;
- Link R&D activities with business intelligence gathering functions; and

- Be prepared to form appropriate alliances/marriages, joint ventures and partnerships in order to leverage core competencies and to maintain/enhance competitiveness.

Expanding the Tourism Industry

Tourism represents an important non-high-technology sector in the Southern Tier which would benefit from a coordinated approach by members of the industry.

Organize for Tourism Development

The existing tourism industry (attractions, service businesses, public/private promotion organizations, and relevant associations, e.g., hoteliers) need to organize for tourism development and promotion across county lines and improve coordination with the NYSDED Vacationlands regions. Organizing for tourism development means coordinating:

- Events, conventions and festivals
- Promotion, e.g., marketing materials, FAM Tours, car/bus tours, etc;
- Service provision, e.g., getting fully booked hotels to obtain reservations for walk-in customers elsewhere;
- Roles and responsibilities, including leveraging the Vacationland tourism development organizations on behalf of the Southern Tier;
- Data collection efforts and information;
- Revenue collection and spending;

Like industry, the Southern Tier's tourism community needs to take time to identify "core competencies;" the strengths which distinguish the Region as a visitor destination. The same approach should be used to assess the Region's weaknesses honestly and critically so that remediation measures may be taken.

Identify Additional Attraction Development Opportunities

The Eastern and Western Sub-Regions feature a more substantial attraction base than does the Central Sub-Region. If the area's tourism businesses successfully form an alliance, the group can identify potential opportunities for expanding the attraction base (which may need to be accompanied by additional service capacity).

The matrix which follows outlines additional strategies and responsibilities.

INDUSTRY AND BUSINESS

Multiple Resp.	Para graph	Title	Primary Organization	Support Organizations
*	B11	STWCA: Utilize ICEM Resources	STWCA, BU	NYSED
*	B12	STWCA: Pursue Additional Sources of Funds	STWCA	
*	D7	Organize to Implement This Strategy	NYSED	REDS, Local Public and Private Sectors, Universities & Colleges
*	F2	Improve Telecommunication System		STCRDDB, Phone Companies
	G1	Elements of Corporate Response to Competitiveness	Southern Tier Companies	
*	G2	Help Companies Increase Their Competitiveness	NYSED	UnIPFG, Local companies
*	K1	Facilitate the Formation of Networks and Consortia	UnIPFG	NYSED, Local Industry & Business
*	K6	Capitalize on Relationships Between So. Tier Entities & Japanese Cos	NYSED	STWCA
*	K7	Encourage Establishment of "In-Plant Incentives"	IDAs	NYSED, Local Industry
*	1.2	Facilitate Food Processors' Diversification Efforts	Cornell Agriculture Ext.	NYSED, Local Industry
*	1.5	Work with NYSEG to Increase Efficiency of Dairy Operations	Cornell Agriculture Ext.	NYSEG
*	M1	Initiate Strategic Wood Products Planning on a Region-Wide Basis	NYSDEC, NYSED	ITBS, RCDS, IDAs, Local Industry
*	M3	Encourage Formation of Southern Tier Wood Products Alliance	NYSDEC, NYSED	ITBS, RCDS, IDAs, Local Industry
*	M4	Attempt to Fill in Gaps in the Value-Added Chain	NYSED, NYSDEC	RCDS, Local Industry
	N1	Organize for Tourism Development	Public and Private Sector	
	N2	Develop a Destination Data Base	Tourism Entities	
	N3	Use Dest. Data Base to Increase Coordination/ Improve Service Delivery	Tourism Alliance	
	N4	Provide Hospitality Training	Tourism Alliance	Tourism Alliance
*	N5	Identify Additional Attraction Development Opportunities	SUNY	Tourism Alliance
*	N6	Explore the Merits of Forming a Southern Tier Festivals Corporation	Tourism Alliance	Tourism Alliance
*	O3	Enlist Banks to Provide Access to Capital	RBDC	Banks

III. Priority Strategies to be Implemented by Units of Government

For the Southern Tier Region to function as a region, the major government entities must all be able to base their actions (and responses to outside initiatives) on a solid planning foundation, or else the benefits of growth will tend to accrue to the better prepared jurisdictions. Consequently, we recommend that local units of government:

Prepare Long-Range Vision Plans

The nine counties and the major Southern Tier cities should initiate long range strategic vision plans encompassing the full range of physical, social, environmental and economic planning issues. Funding for these efforts should come from the localities, supplemented by ARC and EDA funds as become available. These plans can eventually be coordinated at the Sub-Regional level through the Regional Economic Development Council.

Create Special Purpose Commission to Address Watershed Issues on a Regional Basis

New York City obtains its residential drinking water from reservoirs located in a large region in eastern New York which includes Delaware County and other Southern Tier Eastern Sub-Region communities. New regulations governing development near the reservoirs will grossly constrain these communities ability to grow and, hence, their economic futures. The watershed region communities are approaching the issue in concert.

The region of impact faces enormous community and economic development challenges which must be addressed in a cohesive fashion. One option involves the formation of a special purpose commission for the region of impact. A model for this approach which may be of interest to the Watershed communities is the Tug Hill Commission, based in Watertown and formed to address planning and economic development issues in a multi-county area in upstate New York.

The watershed region requires immediate strategic economic development attention to identify ways to mitigate the impact of the new regulations and potential growth and diversification options for the affected communities. This study should be funded in large part by New York City, as its gain is the

watershed region's pain. Other agencies which should be tapped include the NYSUDC, the Environmental Protection Agency, and state and federal rural development programs, e.g., the Rural Development Administration. This study will probably require a total of \$250,000-\$300,000.

Improve Local and Regional Infrastructure

During the course of this study, the consultant team heard numerous opinions and suggestions regarding the nature of infrastructure requirements most needed within the Southern Tier's nine counties. Specific recommendations are contained in Section VI and in each of the County reports. However, obtaining an Economic Development Zone designation in Broome County should receive special priority attention.

Working Together for Economic Development

Throughout the report we recommend approaching economic development from a regional perspective that more accurately reflects how positive and negative economic impacts are distributed. Regional economic development initiatives require regional funding sources.

Consider Pooling Resources

If the Southern Tier's elected officials and citizens choose to divert *existing* revenue sources to economic development, there are many options:

- Sequester one-fourth cent of all sales tax receipts;
- Sequester a portion of utility user taxes;
- Direct a portion of the Transient Occupancy Revenues to the regional tourism promotion efforts;
- Devote airport landing fees and/or rental car taxes to economic development;
- Contract with labor unions for a percentage of dues

- Devote a portion of business license fees to economic development.

These ideas do not involve new taxes; they are regionally based and seek and require the participation of all key parties.

The matrix on the following page outlines additional strategies and responsibilities; consult Section VI for additional details.

Multiparagraph	Para graph	Title	Primary Organization	Support Organizations
•	B2	Expand the NYSED Southern Tier Regional Office Staff	NYSED	USDOL
•	D1	Strengthen Composition of the Regional Economic Development Council	NYSED	RED, Governor's Office
•	D5	Explore Changing Regional Planning & Developmental Bd Service Areas	NYSED	STC & STERPDB, ARC, EDA
•	D6	Create Commission to Address Watershed Issues on a Regional Basis	Affected Communities	NYSED
•	D7	Organize to Implement This Strategy	NYSED	REDS, Local Public and Private Sectors, Univ & Coll
•	E1	Prepare Long-Range Vision Plans	Counties & Major Cities	STC & STERPDB, NYSDOT
•	F1	Assess Need for Public Transportation on Region- or Sub-Region Basis	Counties	STCRPDB, Phone Companies
•	F2	Improve Telecommunication System	Broome County	IDA, Ec. Dev. Alliance, UnIPEG, STERPDB
•	F4	Complete Infrastructure Projects in Broome County	Chemung County	IDA, City of Elmira, STCRPDB
•	F5	Build Two Infrastructure Projects in Chenango County	Chenango County	STERPDB
•	F6	Expand Water and Sewer Services in Chenango County	Tioga County	County ED, STERPDB
•	F7	Develop Industrial Sites in Tioga County	Steuben County	IDA, STCRPDB
•	F8	Provide Industrial Sites and Water Line Expansion in Steuben County	Counties	STC & STERPDB, IDAS, NYSED
•	F9	Potential Infrastructure Improvements Projects Elsewhere in So. Tier	NYSED	NYSTIF, Federal Delegation
•	H2	Obtain Dedicated Fed Funds to Support Defense Diversification Program	NYSED	DOL, BU, Community Colleges
•	J1	Obtain Funding for the Alliance for Workforce Development	NYSED	DOL, BU
•	J2	Obtain Additional Funding to Expand the Capacity of C3	NYSED, C3	Economic Development Community, DOL
•	J4	Designate a "One-Stop" Agency for Workforce Training Info & Referrals	NYSED	BOCES
•	J6	Pursue Forthcoming Federal Apprenticeship Programs	NYSDOL	Ec. Dev. Community, DOL, PIC, Colleges
•	J7	Promote Human Resources Training Aggressively	NYSED	Universities and Colleges
•	J8	Provide Remedial & Literacy Training Using Employment Prep Ed Funds	DOL, PIC	
•	J9	Amend the TAP Law	Legislature	
•	J10	Challenge DOL to Establish Ooc. Skills Competency Assessment Standards	NYSDOL	
K4	K4	Revitalize Southern Tier Central Business Districts	Cities and Counties	
N1	N1	Organize for Tourism Development	Public and Private Sector	
O1	O1	Consider Pooling Resources	Tourism Entities	
O4	O4	Enlarge Scope of Issues Addressed by Councils of Government	Municipalities and Counties	
•	O5	Consolidate Services	Municipalities and Counties	STC and STERPDB
•	O6	Consolidate Purchasing	Municipalities and Counties	
O7	O7	Establish Regional Salicy Equipment Standards	Municipalities and Counties	
O8	O8	Establish the Regional Graphics Standards Group	Municipalities and Counties	
O9	O9	Consolidate Municipalities	Municipalities	

IV. Priority Strategies to be Implemented by Educational Institutions

The colleges and universities located in the Southern Tier distinguish the Region from many competing areas and comprise a significant local asset. Higher education institutions can play many productive economic development roles and have done so to some extent in the Southern Tier and elsewhere in the country. To enable the Southern Tier's colleges and universities to become catalysts for economic development, we recommend that the institutions and appropriate government agencies:

Establish Southern Tier Regional Association of Colleges and Universities

To facilitate inter-institutional cooperation and joint ventures, especially those related to economic development, the Southern Tier's colleges and universities (plus Alfred University and SUNY-Alfred) should form an association of higher education institution presidents and meet on a regular basis. The purpose of the association would be to identify ways to reinforce each others' strengths and leverage each others' resources for the full range of economic development activities colleges and universities may undertake (e.g., technology transfer, basic and applied research, fostering spin-off companies, etc.), and otherwise devise mutually beneficial arrangements (e.g., shared programs) and increase their leadership profile in the Southern Tier.

Form More University-Industry Partnerships

Exploring ways to form additional mutually beneficial arrangements between higher education institutions and Southern Tier companies is key to the Region's economic development. The colleges and universities should take a pro-active role in creating alliances with local firms, including originating proposals, working with UnIPEG and NYSDED to identify candidate companies and industries and coordinating with other institutions through the Association described above.

Become Information Brokers

Many corporations, especially small- and mid-sized companies, lack the research skills and the time to gain access to the free and low-cost technology information sources available through the federal government. Since this information can also advance education institutions' research efforts and

supplement library holdings, it makes sense for colleges and universities to stay abreast of the data sources and acquire it for the use of students, faculty, staff and area businesses. We recommend that the Southern Tier colleges and universities and UniPEG take the following steps:

- Identify information sources useful to Southern Tier industries and collegiate research objectives;
- Coordinate information acquisition and dissemination

The following page represents the matrix of strategies and responsibilities earmarked for educational institutions. We note that many of the strategies require educational institutions to work closely with other entities, particularly economic development organizations. Additional details may be found in Section VI of the full report.

Multiple Paragraph Resp.	Title	Primary Organization	Support Organizations
• A1	Launch Leadership/Team-Building Programs for Ec. Dev. Prof. & Elec. Off.	NYSDED	SUNY
• B11	SIWCA: Utilize ICEM Resources	SIWCA, BU	NYSDED
• D7	Organize to Implement this Strategy	NYSDED	REDS, Local Public & Private Sectors, Universities and Colleges
• I13	Obtain ARPA Funds to Establish Manufacturing Outreach Center	UniPEG	NYSDED, Universities and Colleges
• I1	Establish Southern Tier Regional Association of Colleges and Universities	Universities and Colleges	NYSDED, Universities and Colleges
• I2	Form More University-Industry Partnerships	UniPEG	Universities and Colleges
• I3	Emphasize Applied Research	Universities and Colleges	Universities and Colleges
• I4	Implement Policies to Encourage Univ Entrepreneurs & Tech. Diffusion	UniPEG	Universities and Colleges
• I5	Become Information Brokers	UniPEG	Universities and Colleges
• I6	Continue Efforts to Establish Centers for Advanced Technology (CAT)	UniPEG	Universities and Colleges
• J1	Obtain Funding for the Alliance for Workforce Development	NYSDED	DOI, BU, Community College
• J2	Obtain Additional Funding to Expand the Capacity of C3	NYSDED, C3	DOI, BU
• J3	Reinforce the SUNY-DID Partnership	SUNY	NYSDED
• J5	Expand BOCES Teacher-to-Teacher and Teacher Training Programs	BOCES	BOCES
• J6	Pursue Forthcoming Federal Apprenticeship Programs	NYSDOE	Ec. Dev. Community, DOI, PIC, Colleges
• J7	Promote Human Resources Training Aggressively	NYSDED	Universities and Colleges
• J8	Provide Remedial & Literacy Training Using Employment Prep Ed Funds	DOL, PIC	NYSDED, Universities
• K3	Help So. Tier Firms Gain Access to Centers for Advanced Technology	UniPEG	C3, SUNY
• K8	Teach Entrepreneurial Skills	NYSDED, IDAs	NYSDED
• K9	Export the Knowledge Created at C3	C3	NYSDED
• K10	Convert Summer Home Dwellers Into Local Business Owners	IDAs	NYSDED, SUNY
• L3	Encourage Local Testing of New Bio-Enhanced Crops	Cornell University	Cornell Agriculture Extension
• L4	Request that Cornell Provide Scholarships to its Food Executive Program	Cornell University	Chambers of Commerce
• N4	Provide Hospitality Training	SUNY	

CONCLUSION

With the completion of this economic adjustment strategy, the real work begins for the Southern Tier. Implementing these strategies will not be easy. They require persistence, work and a degree of faith in economic development's ability to improve the quality of life for the Region by stimulating investment, creating jobs and ultimately generating wealth and increasing prosperity. We feel confident that the talent these strategies require to implement is available in the Southern Tier and look forward to watching the Region thrive.



Department of Economic Development and Planning

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July 6, 1994

The Honorable Paul E. Kanjorski, Chairman
Subcommittee on Economic Growth and Credit Formation
109 Ford House Office Building
Washington, D.C. 20515-6054

Dear Congressman Kanjorski and Subcommittee Members:

I am pleased to testify and hereby submit this written statement for the hearing on *Job Development and the Economic Future of the Southern Tier* at Binghamton New York on Friday, July 8, 1994.

Recently I received the results of a 1994, Legislative Questionnaire from Congressman Hinckley. Over 10,000 persons responded to the questionnaire. I was particularly interested in the *Jobs and Economy section*. Only 35% answered "yes" they are optimistic about our economic future. A strong 74% answered "yes", they agree with the Government's Technology Commercialization approach. Nearly half thought the Federal Government should increase access to international markets and convert defense spending to industrial/educational spending. These are very thought provoking issues, many of which are addressed in my testimony which follows:

One year ago an international economic consulting firm, Economic Research Associates, delivered their report on an EDA funded fifteen month study concluding Tioga County, N.Y. and surrounding counties are eligible for Title IX funding due to "Sudden and Severe Economic Dislocation". To date, thirteen months later, not one dollar has been made available to assist our economically depressed area which is suffering primarily from DOD cutbacks.

The present economic delivery system is broken and needs a major overhaul. Since industry creates jobs, we in government at the county, state, and federal levels need to understand industry's problems and assist them in competitiveness issues. A quick response economic development delivery system is badly needed. High risk front-end financial assistance is also needed for small start-up businesses.

A new paradigm for economic development is essential, where industry takes the lead role and forms partnerships with government and universities to regain global competitiveness in commercial markets. Incentives should be provided to businesses

by government to optimize industries agility, core competency development, productivity, quality, modernization, and workforce utilization, (i.e., training and managing change). Incentives should be provided to universities to develop in-plant industry competitiveness academic programs focusing particularly on manufacturing processes and product development cycles. This emphasis is needed since technology development is very costly to industry, it changes rapidly, and is easily duplicated by foreign competitors. Therefore, assistance is needed to help U.S. industries embed technology into products much more quickly to meet, and even drive changing demands.

Anti-trust legislation also needs to be modified to reflect global competitiveness of the 21st century. Existing legislation restricts competitiveness of U.S. industry by limiting joint venture opportunities. The Pacific Rim and EEC countries provide product development subsidies that make it extremely difficult for US companies to compete on a level playing field. U.S. financial institutions need to compete with foreign banks through equity relationships with businesses. Enhancements to the Federal Community Reinvestment Act (CRA) is needed to improve the quality of life of communities by providing independently managed revolving fund pools to help high risk entrepreneurs in start-up ventures.

Educational institutions, business, and labor groups need to prepare our workforce beginning with team building in kindergarten, on through college, and into the workplace in self-directed work team development. Churches, community groups, and labor organizations need to focus on family unit counseling for dual working and single working parents, and for certified child care services. Cooperative Extension should also assist economic development with emphasis on transferring education from university classrooms into small and medium businesses as they have done effectively in agriculture.

In summary our country needs a clear industrial policy; at best today it's laissez faire. We all need to work together to make us economically secure. Our country is the greatest and I am confident government, industry, and education is up to the task before us. Thank you.

Sincerely,



Glenn W. Carter, Director
Economic Development and Planning

SOUTHERN TIER NEW YORK
MANUFACTURING EXTENSION PARTNERSHIP
(STNYMEP)

UNIVERSITY/INDUSTRY/PUBLIC
PARTNERSHIP FOR ECONOMIC GROWTH
(UnIPEG)
1310 NORTH STREET, ENDICOTT, NY 13760

E. KAY ADAMS
EXECUTIVE DIRECTOR

JULY 8, 1994

SUMMARY

UniPEG, the University/Industry/Public Partnership for Economic Growth, is a private non-profit industrial technology organization in the Southern Tier. In this activity, UniPEG serves as the regional coordinating organization for the New York State Science and Technology Foundation (NYSSTF) which has state-wide responsibility for the deployment of the New York Manufacturing Extension Partnership program (NYMEP).

The Southern Tier region of New York is characterized by a concentration of 89% small and medium-sized firms, in addition, has the unique distinction of having major facilities of large corporations including: IBM, Loral, Corning, Proctor & Gamble, DovAtron, Universal Instruments Corporation, Toshiba Display Devices Inc., Martin Marietta, and Philips, among many others.

As part of the NYMEP, UniPEG will provide a broad range of technical and business solutions resulting in long term tangible benefits to small manufacturing customers. The specific goals are to improve the financial results of our customers, have above average customer satisfaction with a long range objective of delighted customers, and to have in-depth work activities with a minimum of thirty customers in the first year.

PROFILE OF THE REGION

The region's economy struggles as evidenced by persistent layoffs, voluntary separations, plant closings and businesses that have been purchased and relocated out of New York State. These events are characterized by the slow downsizing of IBM, Martin Marietta, CAE Link, and Proctor & Gamble; the sale of Wilson Instruments and Endicott Johnson's rubber boot facilities and the closings of Ebonex, Ozalid and AAI Microflite. The near term outlook appears no better as additional workers will be faced with layoffs and displacements.

The downsizing of the defense companies in the Southern Tier continues to throw a dark shadow on the local economy. As the nation's economy is beginning to stabilize, we in this region, continue to see our employment base erode. Among the nine (9) counties, Broome County remains the hardest hit in terms of total unemployment. The concentration of companies is in Broome, Chemung, and Tompkins counties, however, the six counties of Chenango, Delaware, Otsego, Schuyler, Steuben and Tioga will also provide excellent customer potential.

Factory jobs continue to be the hardest hit, battered by corporate restructuring, the shrinking defense industry, and the national recession. Roughly one in five high-paying manufacturing jobs disappeared since September 1988. Over the same period, the region lost 13,900 manufacturing jobs; a decrease of over 17%.

Profile of the Region cont'd.

Our target population of 896 manufacturing companies contains 122 defense dependent companies, the second largest group of defense dependent manufacturing companies in NYS. They employ 23,772 workers and generate over \$26B in revenue and will be the first group of companies that we will select to target with our services. The second group of companies, both defense dependent and non-defense dependent, will be companies that use the technologies critical to our region, i.e., electronic components, advanced materials, software, pharmaceutical, biotechnology, simulation, printing, wood products and transportation.

The following regional resources are potentially available to the ITES/MOC programs to assist in meeting the productivity and technical needs of manufacturing firms.

Alfred University - The two-year old incubation facilities at Alfred University and Painted Post are being used to promote the development of technology from research and transfer this information to other industries within the Southern Tier. Other resources available are the Center for Advanced Technology in Glass and the College of Ceramics and the Industry-University Center for Glass Research Program , all at Alfred University.

Cornell University - Cornell University has a far reaching multi-million dollar program of research for a wide variety of areas. The Center for Manufacturing Excellence, the Theory Center, the Nanofabrication, the College of Engineering and Cornell's Center for Advanced Technology in Biotechnology in Agriculture which specializes in assisting small and medium sized companies with special problems related to plants, animals and cell production are only a few examples. Other resources available to help industry include food science, textiles and apparel, the Johnson School Graduate Management, The School of Industry and Labor Relations, and The Waste Management Institute.

Binghamton University - Binghamton has been successful in establishing the Integrated Electronics Engineering Center which has as one of its objectives to transfer developed technology to small and medium-sized firms and the Center for Advanced Technology in Electronic Packaging. Other resources available include the Watson School of Engineering, the School of Management, and the External Management Programs Office.

The above universities provide active support to the Southern Tier through faculty consulting and student projects for client firms in all areas of needs including technology transfer, productivity improvements, total quality and business management projects.

In addition to the aforementioned universities, the following area colleges provide educational and training assistance as well as other expertise in various areas:

- Broome Community College
- Corning Community College
- SUNY-Oneonta
- SUNY-College of Tech. at Delhi
- Tompkins-Cortland Comm. College
- Morrisville College, Norwich Branch

Profile of the Region cont'd.

The regional agencies that will participate and enhance the ITES/MOC services are listed below. The relationships are positive and called on as required by the customer needs. As an example, the NYS DED and Unipeg have a monthly joint staff meeting to review activities and build relationships for improving customer service.

- NYS Department of Economic Development
- NYS Department of Labor
- Small and Medium-sized Business Assistance Program (SAMBA)
- US Small Business Administration offices include:
 - Small Business Development Centers (SBDC) at Binghamton University and Corning Community College
 - Service Corps of Retired Executives (SCORE)
- Southern Tier World Commerce Association (STWCA)
- Private Industry Councils (PIC)
- Chambers of Commerce
- Industrial Development Agencies (IDA)
- Executive Service Corps. of Otsego - Delaware Counties (ESCOD)

Close ties are also maintained to our local professional societies such as:

- Southern Tier Council of Technical Societies (STCTS)
- Society of Manufacturing Engineers (SME)
- American Production & Inventory Control Society (APICS)
- American Society for Quality Control (ASQC)

STRATEGIES

The development of the strategies for the ITES and MOC programs is based on external inputs accomplished from an Industrial Technology Needs Assessment, client input gathered during one-on-one visits and feedback from ITES, TDO, other state agencies such as the New York State Regional Department of Economic Development, and executive staff experience.

The results of the inputs highlight the following major areas of need:

- New markets for existing products
- Need to improve profitability
- New products for existing technology
- Quality management system
- Strategic planning

These needs are one of the key inputs for staff and consultant selection, partnership development and the ITES/MOC service strategy.

Strategies con't.

The service delivery strategy for the ITES staff will mirror the past activities plus the additional responsibility of being the customer focal point for the MOC services being provided. The specific activities will be:

- Marketing efforts will be undertaken which result in contact or visits with new manufacturing clients during the 1994-95 contract year. The ITES staff will continue to respond to requests from all manufacturing firms for information and assistance, and to develop an expanded client base.
- Technical and management consulting assistance will continue to be provided to all ITES company clients by the ITES staff as appropriate. All other needed resources will continue to be identified and located by ITES staff. Including all State programs, these resources may include educational institutions, the NYMEP, MOC, local economic developers, private consultants, federal programs and laboratories, etc.
- Joint visits with DED personnel to all appropriate companies will continue, as well as continued promotion of the IEP program.

The primary objectives of the ITES staff are to effectively deliver productivity-improvement services to manufacturers, and to efficiently utilize existing resources and programs such as the IEP, MOC, and NYMEP.

The service delivery strategy for the MOC will build on the activities of the ITES staff and will offer the consistency of focus and an efficient method of delivering the various services required to meet customers' needs.

The strategy is designed to be flexible and customer driven. It follows the outline in our original proposal for an MOC. These services have been grouped into four major areas: ANALYZE, DEVELOP, COMPETE, and GROW. We believe that by focusing on continued improvement through these four segments, the companies results will prove how MOC services benefit their whole company.

A full description of each of these programs is being developed and will be communicated by the UniPEG office as it becomes available.

THIS IS AN INVITATION TO PARTICIPATE IN MEP !

FOR ALL INTERESTED MANUFACTURER'S

UnIPEG is soliciting industry input and participation in their new Manufacturing Extension Partnership Program. You are invited to participate by returning this "Needs Questionnaire" to UnIPEG. This invitation is for all companies in the UnIPEG nine county region. All companies responding to this "Regional Industry Needs Questionnaire" will be included in our summary report but individual company information will not be distributed. Please take a short ten minutes to fill out the questionnaire and return it to UnIPEG at 1310 North Street, Endicott, NY 13760. If you have any questions please call E. K. Adams at (607) 748-9214. Thanks in advance for all of your help in building an MEP program that will address true industry needs.

MANUFACTURING EXTENSION PARTNERSHIP (MEP)

UNIPEG HAS RECENTLY BEEN AWARDED A MULTI-YEAR GRANT TO ESTABLISH A MANUFACTURING EXTENSION PARTNERSHIP (MEP) PROGRAM TO ASSIST SOUTHERN TIER INDUSTRIES BECOME MORE COMPETITIVE THROUGH USE OF "BEST PRACTICES" AND EFFECTIVE INDUSTRY TECHNIQUES.

The MEP will be an extension of current UniPEG activities and will make use of existing, well established, management and financial controls. UniPEG will house, support and facilitate MEP services at its two existing offices and will add additional staff expertise. The grant will allow expansion of staff and related support capabilities to creatively address the manufacturing improvement needs of our area. UniPEG's past experience with Southern Tier companies will provide a foundation of information on which to base the development of our MEP services for industrial improvement and growth.

The MEP will address these needs through a set of "Best Practice" services aimed at advising and implementing improvements with target clients. It is the intention of this MEP to build and strengthen the services desired by the regional target companies by making service adjustments as required to reach a balance for industry. We believe that by focusing on continual improvement through these four segments, the participating company results will prove how MEP services provide benefit.

Previous surveys of Southern Tier industry needs suggest services be provided in the following major lines:

- Analysis
- Competitiveness
- Development
- Growth & Expansion

This attached Regional Industry Needs Questionnaire is the first step in gathering appropriate industry information to assist in the development of additional service lines. To be part of this development, please take a few minutes to fill out the attached questionnaire. Thank you in advance for your assistance.

Unipeg
REGIONAL INDUSTRY NEEDS QUESTIONNAIRE

COMPANY NAME: _____ PERSON RESPONDING: _____

ADDRESS: _____ PHONE #: _____ FAX #: _____

1. BACKGROUND

The following questions request background information on your company. Please record your responses in the space provided.

1.1a Number of employees:

<input type="checkbox"/> Less than 50	<input type="checkbox"/> 200-500	<input type="checkbox"/> more than 500
<input type="checkbox"/> 50-99		
<input type="checkbox"/> 100-199		

1.1b Number of locations:

<input type="checkbox"/> Domestic	<input type="checkbox"/> International
-----------------------------------	--

1.2 What are the primary products produced by your company?

1.3 What percent of revenues are from:

	<u>1990</u>	<u>1993</u>	<u>1995</u>
Product Sales	____%	____%	____%
Services	____%	____%	____%
TOTAL	____%	____%	____%

1.4 What percent of sales were attributed to:

	<u>1990</u>	<u>1993</u>	<u>1995</u>
Department of Defense	____%	____%	____%
Other Federal Government Agencies	____%	____%	____%
Non-Federal Government Agencies	____%	____%	____%
Commercial clients	____%	____%	____%
TOTAL	100%	100%	100%

1.5 Ownership status:

1.5a Is your company a subsidiary or division of another company? Yes No

1.5b If Yes, parent company name: _____
 Location: _____ State _____ County _____

1.6 Does your firm have a written strategic plan? Yes No

1.7 Does your company have a functioning Total Quality Management operating philosophy? Yes No

1.8 Where do you see the company five years from now? Revenue increase _____
Revenue decrease _____
(In words: I would be proud of my company in five years if we accomplished....)

2. MARKET

The following questions focus on the markets you serve.

2.1 How do you market your products?

A bar chart comparing revenue from Telemarketing and Media across three categories: Sales calls, Advertising, and Other. The Y-axis represents revenue in millions of dollars, ranging from 0 to 10. Telemarketing consistently shows higher revenue than Media for all categories.

Category	Telemarketing	Media
Sales calls	7.5	2.5
Advertising	5.5	2.0
Other	3.5	1.5

2.2 Is competition in your current markets primarily based on:

— Price (i.e., commodity product) Delivery/time Quality
Other

2.3 What do you believe are the most important strengths of your company?

2.4 What are the three most important changes your company will have to make in order to be successful in the future?
1) _____
2) _____
3) _____

2.5 If a prospective customer asked for a one-sentence explanation of why he/she should buy from you rather than your competitor, what would you say?

3. PEOPLE

The following questions ask for information concerning company employees and employee development programs.

3.1 What is the average years of service with your company for your employees in the following categories

Senior management Staff support personnel
 Middle management, supervisors Operations personnel

3.2 What employee turnover have you experienced in the last year (1993) for:

<u>% Turnover</u>	<u>% Turnover</u>
Senior management	Staff support personnel
Middle management, supervisors	Operations personnel

3.3 What were your training and education expenditures as a percent of sales in 1993? _____ %

3.4 What measures do you employ for career development on the job? (Check all that apply.)

Rotating assignments Independent projects Task team
 Formal career development plans
 Other (Please describe): _____

3.5 What formal education programs do you employ? (Check all that apply.)

- Remedial programs for reading, math, etc.
- Tuition reimbursement for university courses
- External seminars, association seminars (Please describe below)
- Internally developed training programs (Please describe below)
- Custom-developed programs (Please describe below)
- Other _____

4. FINANCIAL SITUATION

4.1 Please provide the following financial information

	<u>1992</u>	<u>1993</u>	<u>1994 (est.)</u>
Total Sales Dollars	\$ ____	\$ ____	\$ ____
Profitability % of Sales	____ %	____ %	____ %
Inventory turns*	____	____	____

*Formula: cost of goods sold ÷ annualized inventory

5. OPERATIONAL

We would like to ask you a few questions about some operational characteristics of your business.

5.1a Which of the following statements best describes the variety and volume of your production activities?

Low variety, low volume production Low-variety, low volume production
 High-variety, low volume production High-variety, high volume production

5.1b Which of the following statements best describes your types of business?

- Manufacturer of materials, components or subassemblies sold to other manufacturers for inclusion in their products
- Manufacturer of a final product under contract to another firm
- Manufacturer of a final product based on own design
- Purchase basic product from other manufacturers for further enhancement prior to resale

5.2 Which factors are most important to your ability to compete?

Please rank the following factors from most important "1" to least important "10". Each factor should be ranked with a unique number, i.e., the most important factor should be given a "1", the second most important factor a "2", the third most important a "3" and so on.

	Rank		Rank
Price	—	Conformance (lack of defects)	—
Delivery	—	Durability	—
Product performance	—	Aesthetics	—
Product features	—	Perceived quality	—
Reliability (failure rates)	—	Service	—

5.3 Have your customers taken any of the following actions?

- Yes No Reduced the number of suppliers
- Yes No Replaced short-term purchase orders with your firm with long-term contracts
- Yes No Provided advance planning information to your firm
- Yes No Established electronic data interchange (EDI) links to your firm
- Yes No Required your firm to deliver products on a just-in-time (JIT) basis
- Yes No Involved your firm in product design efforts
- Yes No Required your firm to implement TQM or other formal quality programs
- Yes No Required your firm to be ISO 9000 certified
- Yes No Provided training and/or technical assistance to your firm
- Yes No Provided financial assistance to your firm
- Yes No Licensed proprietary technology to your firm

5.4a Does your company make use of computers in manufacturing processes? Yes No

5.4b Has your company considered making greater use of computers? Yes No

5.4c Are you using or are you planning to use any of the following technologies?

- Computer-Aided Design (CAD)
- Computer-Aided Engineering (CAE)
- Computer-Aided Manufacturing (CAM)
- Computer Numerical Control (CNC)
- Manufacturing Resource Planning (MRPII)
- Other. Please identify these: _____
- Programmable Logic Controllers (PLCs)
- Electronic Data Interchange (EDI)
- Robotics
- Bar Coding

5.5 What kinds of barriers may have prevented your firm from using more advanced machinery?
Please prioritize the following in terms of impact (1 - greatest barrier).

- workload projections
- information barriers
- other _____
- financial barriers
- retraining barriers

HONORABLE PAUL KANJORSKI

CHAIRMAN ON SUB COMMITTEE ON ECONOMIC DEVELOPMENT

TESTIMONY ON THE BROOME COUNTY ECONOMY

SUBMITTED BY DR. MORRIS BUDIN
PROFESSOR OF URBAN PLANNING, EMERITUS
BINGHAMTON UNIVERSITY
BINGHAMTON, NEW YORK 13902

The Broome County Economy: Problems and Suggested Solutions

By: Dr. Morris Budin
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Binghamton University
Binghamton, New York 13902

I. Demographic and Economic Conditions

(a) Population of Broome County has been declining since 1970, a pattern that is expected to continue due to the out-migration of younger and middle aged job seekers and the high percentage of elderly persons. Binghamton has experienced the most serious declines; slower rates are present in Johnson City, Endicott, and Vestal. Areas outside of the urbanized centers have generally grown.

(b) Employment trends were positive from 1975 to 1988, but declined rapidly thereafter. The dominant "Manufacturing" sector suffered the most serious collapse since 1988 due to layoffs of large numbers of managers and lower levels of employees. The only employment growing sectors since 1975 are "Retailing", "Health", "Social Services", "Education", and "State Government". Very slow growth has occurred in "Construction" and "Wholesaling".

(c) Housing conditions are closely related to poverty levels. Recent estimates indicate that about 12 to 15 (Refer to Appendix A) percent of units in the county require replacement now, or over the coming decade. A large proportion would require some forms of subsidies. (Estimate is 9,000 to 12,000).

(d) The commercial sector is going through a revolution as more large malls have developed in Vestal and the Town of Union. The downtowns of Binghamton, Johnson City and Endicott have been decimated; many traditional "mom and pop" stores spread through the area have been driven out, and recently the commercial strips and older malls have experienced widespread failure.

(e) The end results of the economic deterioration are blighted neighborhoods, empty factory structures, polluted lots and increased crime.

II. What will the future be like unless major actions are taken?

There is no evidence that the Broome County area will experience a significant recovery unless the communities, the state, and the Federal Government act. There is no evidence that the "Manufacturing" sector can recover its employment levels. The pattern of declining employment in most industries, even when outputs are expanding is strong and persistent for the past three decades. Rapid expansion of labor saving capital equipment; new developments in management organization; growth of (Refer to Appendix B) competition in traditional and, now new "high tech" products made abroad in less developed countries where costs are lower; the relocation of firms from the United States to other lower cost areas; and the fostering of new industries by foreign governments are some of the reasons for declining employment in manufacturing in our country. Broome County feels the pressures on the computer and communications industries, its major manufacturing employers.

Finally, I believe it is important to indicate that our unemployment conditions are far worse than the data released by our governments on unemployment rates. Methodologies used to derive estimates of these rates have been seriously flawed for years and are further flawed by the massive down-sizing in recent years. The offers of payments for early retirements distort estimates the size of the labor force as well as the number of unemployed. An analysis in Appendix B indicates the problems in these estimates.

III. What policies should be adopted for the County?

The summary of suggestions provided are based on the specific needs and resource capabilities of the region. (Refer to Appendix C)

Let us analyze the details of the occupation opportunities and the policy implications.

The government sector will provide the lion's share of new job opportunities. The strength will be in the social services and its sub-sectors that include hospitals, medical services, geriatrics, nursing homes, and other human services. Nearly half of the occupations in this sector is expected to experience very rapid growth

another 37.8 percent will probably have slower growth. No other sector or sub-sector is expected to grow as rapidly.

However, this growth will depend upon federal legislation and adequate financing. The demand will be there, enhanced by an aging population and by opening the services to more middle and lower income families who could not afford it without government insurance.

Education is expected to be the second most important growth sub-sector. Again the demand will be present, but the supply will depend on government expenditures. Over three quarters of the occupations will expand rapidly or somewhat if financial resources are made available.

The region needs a broad array of new educational programs if it is to expand into new field to replace more traditional employment opportunities. A number of educational programs are identified in Appendix C.

Housing for moderate and low income families is essential. The need for new structures and for rehabilitation are evident; the Southern Tier also has its homeless and hungry families who need shelter.

A project to make it possible for moderate low income families (\$12,000-\$18,000 per year) to own their homes is being studied at this time. The program would probably require a few, relatively small subsidies:

- (1) The city might provide vacant lots at nominal prices;
- (2) The Federal might cover the costs of clearing and preparing the lots;
- (3) The city might arrange for tax abatements that decline over time;
- (4) The state provide a fixed subsidy for construction;
- (5) Banks might provide a sliding scale of mortgage rates that start low but move up to market rate levels over time.

Other projects that would generate many jobs are in flood controls, relocation of homes in the flood plains, waste control and disposition, reforestation, and public buildings. The list is long and nearly all items require government funding.

The sum total of changes is an evolution of the Southern Tier from a manufacturing center dominated by electronics, computers and simulators to a center for education, health services and special programs for the aged. If funds are made available, the "construction" group could be revived by major housing programs.

Clearly, policy must be directed toward increasing employment of health professionals, educators, environment managers, and specialists in waste management.

Finally, I would like to comment on the "workfare" issue that is critical for all ages.

GENERAL RECOMMENDATIONS:

1. We must get rid of the invidious term "workfare." Unemployment is unemployment, so the program must be termed a "re-employment program" for all persons.
2. We must stop thinking about unemployment as being short-term, seasonal or cyclical and long-term secular. Our job solutions must be designed to cope with unemployment that is structural.
3. We must accept the fact that solutions are not cheap, simple, or immediate.
4. Our search for solutions must focus on what must be done to increase the number of productive jobs, not just "make work" jobs.
5. The program must emphasize productivity not punishment .

SPECIFIC RECOMMENDATIONS

1. Where possible, training programs must be linked to job opportunities that are available.
2. Jobs must be significant and permanent, with opportunities for advancement. At the same time, the rules for hiring, promotion or dismissal must be the same as those in the public or private sectors.
3. Job opportunities must be expanded in the private sector as well as the public. The public sector provides opportunities to meet social needs often neglected or postponed. Many of these projects can provide long-term employment opportunities. All of the projects below are examples of activities that would strengthen our nation:

Housing-subsidized and special types for handicapped (include renovation and new units).

Environment protection-flood control, land pollution controls, air and water purification.

Waste collection and disposition-hazardous and non-hazardous , solid and recyclable.

Urban development, including recreation facilities.

Construction-schools, clinics, roads, bridges, viaducts.

Services-education, medicine, police, care of the elderly.

4. Wages and supplements for particular jobs must be equal to those provided in the market.

5. On-the-job apprenticeships may be arranged for limited periods; a share of wages for these may be subsidized by the government. Only a small portion of a firm's labor force may be apprentices. Apprentices must not be used to replace permanent employees.

This proposal uses the structure and methods of the free market, something former work-fare programs did not. It does not take advantage of the welfare applicant, but treats all unemployed similarly. It also increases the possibility of stimulating the employee to be more responsible on the job.

The role for the government is also in the American tradition by providing opportunities for the nation to solve some deleterious problems that retard our progress. (see Appendix C)

APPENDIX A

- (1) The Broome County Economy
 - (a) Population
 - (b) Employment
 - (c) Housing Conditions and Poverty

The Broome County Economy

The materials provided herein on the economic and social conditions of Broome County are provided to clarify problems in the Southern Tier. Understanding the basic trends of population, employment, industrial production and social conditions should provide us an opportunity to evaluate proposals offered for the recovery of the area. We initiate the report by analyzing the demographics of the county.

(a) Population Trends - (Table I)

Population data on Broome County and its major municipalities from 1900 to the present indicate periods of growth and decline. The county experienced growth from 1930 (147,022) to 1970 (221,815) but declined thereafter to 1990 (212,160). The growth period would have been slower, and the decline more rapid had the area not enjoyed sharp increases of students at Binghamton University and Broome Community College.

If one is to make correct forecasts of population the temporary resident students must be removed from the totals. Making these adjustments and projecting birth and death rates, and migration rates I conclude that by the year 2000 the local population will decline to 207,920 (2.0 percent below 1990); if students are excluded the total would be 195,000. This estimate may also be high because of the layoffs at IBM and other firm might increase the out-migration that will increase the recent rate of net out-migration.

Binghamton's population reached a peak of 80,000 in 1950, but then declined sharply to 53,000 (49,000 excluding temporary students) by 1990. Similar, but slower patterns are present for Johnson City, Endicott, Vestal and the Town of Union. Binghamton will continue to lose its role as the central place of the county, declining from its peak in 1950 when it had 43.7 percent of the county population to an expected proportion of 23.5 percent by the year 2000. Vestal and the Town of Union, excluding its two villages are the only large municipalities that increased their shares in the declining county. The two villages lost shares. (Table III).

The age distribution of the county plus the tendency toward moderate out-migration of retirees that is now augmented by out-migration of younger families whose bread-winners have lost their jobs. As indicated in Table II Binghamton has a very high concentration of persons over the age of 64, many seeking to leave the city and the area. Estimates have been made that in the 1980's out-migration was over 1500 per year; The rate will increase as our economy declines. Migration has been from the urban cities to the less urbanized in the past, it goes on but now the shift is stronger to leave the county completely. (Table III).

Employment Trends (Table V)

Trends of employment in the Binghamton Metropolitan Statistical Area indicate the following:

- (1) Total employment grew from 1975 to 1988 then declined sharply to 1993. By 1993 the employment level was back to the 1984 level.
- (2) Manufacturing is the dominant sector, providing 36 percent of all jobs in the 1970's but receding to only 27 percent in the 1990's.
- (3) In the manufacturing sector the "Fabricated Metals and Machinery" industries provided about 70 percent of jobs in the earlier years, but has declined to 60 percent in recent years.
- (4) Non-manufacturing has provided steadily growing employment opportunities from 1975 to 1990. The growth has been 33 percent.
 - (4a) Retailing has had a strong trend as new retail centers in malls successfully challenged the established downtowns in urban areas.
 - (4b) The two most rapidly growing sectors are "Health" and "Social Services" nearly doubling between 1975 and 1992.
 - (4c) Milder growth is present in "Education" and "State Government" employment. "Local Government" employment has been static.
 - (4d) Small employment gains are found in "Construction" and "Wholesaling", but offset by declines in "Transportation."

Table I
Populations Reported 1960-1980 and Estimates for 2000

Years	Broome Co		Binghamton		Johnson City		Endicott		Ulysses		Vestal	
	Pop	% change	Pop	% ch.	Pop	% ch.	Pop	% ch.	Pop	% ch.	Pop	% ch.
1900	30,647		3,111									
1910	48,443	+28.1	3,775	+21.3	2,469							
1920	66,806	+31.9	8,587	+127.4	9,500	+29.4						
1930	147,022		16,662	+14.2	13,587	+58.0	16,271	+7.9	12,781		1,3	
1940	165,749	+12.7	18,709	+2.1	18,029	+33.0	17,708	+9.1	14,454	+13.1	5,710	+100.5
1950	184,678	+11.1	18,674	+3.0	19,749	+6.7	20,060	+13.3	16,422	+12.6	8,902	+155.9
1960	212,661	+15.1	19,941	+5.9	19,110	-0.7	18,775	-6.0	24,212	+14.3	16,866	+188.8
1970	231,815	+4.8	21,173	+15.5	18,020	+5.7	16,159	-12.7	32,011	+19.0	26,569	+60.1
80	219,645	-3.7	55,860	+13.0	17,126	+5.0	14,457	+16.0	29,596	+14	27,235	+12
1990	212,160	-0.7	53,008	+5.1	16,890	+1.4	13,531	+6.4	29,365	+0.6	26,733	+17
2000 EST.	207,930	-2.0	50,360	+5.0	16,550	+2.0	12,350	+5.0	27,980	+5.0	26,300	+2.0

Age Groups	1990 Population by Age Distribution			
	U.S.A %	New York STATE %	Binghamton M.S.A %	Binghamton %
0-4	7.5	7.0	5.5	6.8
5-16	15.5	14.0	19.1	11.4
17	2.7	2.6	3.1	1.9
18-24	4.7	4.7	5.1	4.8
25-24	6.0	6.2	6.1	9.1
25-44	32.8	32.6	31.0	29.7
45-54	10.2	10.6	10.4	8.6
55-59	4.2	4.5	4.6	3.9
60-64	4.2	4.6	4.7	4.7
65-74	7.3	7.5	4.3	9.9
75-84	4.0	4.3	4.6	6.8
85 and over	1.2	1.4	1.5	2.4
Pop. Totals	245,709,873	11,990,455	264,497	53,008

Table III
Population Distribution of County (1990)
%

AREA:	City of Binghamton	25.0
	Town of Union	28.2
	Vesta	12.6
	Chenango (Town)	5.8
	Windsor	3.0
	Fenton	3.4
	Conklin	3.0
	REST of County	19.0
		100.0

Table V

(BMSA)

Percent Distribution of Employment in Sectors 1975-1992

	Total Manufacturing % of Total Manufacturing	Durable Mfg. %	METALS %	Other Durable %	Non- Durable %	Total Non- Mfg. %	Const. %	Trans- portion %	Wholesale %	Retailing %	Finance %
1975	36.3	27.8	21.6	6.3	8.3	63.7	3.9	4.1	3.7	14.3	3.3
1976	36.2	28.1	21.9	6.0	8.1	63.8	3.6	4.0	3.8	14.8	3.3
1977	36.3	28.5	23.0	5.5	7.8	63.7	3.4	4.2	3.8	14.8	3.2
1978	36.3	28.7	23.9	4.8	7.6	63.7	3.6	4.1	3.9	14.8	3.1
1979	36.5	29.3	24.6	4.7	7.3	63.5	3.4	4.1	3.9	14.4	3.3
1980	36.0	29.0	24.7	4.4	6.9	64.0	3.4	4.0	3.9	14.4	3.5
1981	36.7	30.0	25.7	4.3	6.7	63.3	3.2	4.0	3.9	14.0	3.4
1982	36.7	30.2	25.9	4.4	6.3	63.3	3.4	3.9	4.0	13.9	3.3
1983	35.4	29.5	25.3	4.3	5.9	64.6	3.4	3.7	4.1	14.3	3.3
1984	35.4	29.6	25.6	4.0	5.8	64.6	3.8	3.5	4.0	14.9	3.2
1985	34.0	28.3	24.6	3.7	5.6	66.0	4.0	3.6	3.6	13.4	3.2
1986	32.0	26.7	22.9	3.8	5.5	68.0	4.3	3.5	4.0	17.0	3.3
1987	31.6	26.3	19.5	6.8	5.4	68.4	4.3	3.7	4.1	17.2	3.4
1988	31.3	26.3	18.9	7.4	5.1	68.7	4.6	3.5	3.7	18.3	3.4
1989	30.0	25.0	17.8	7.3	5.0	70.0	4.5	3.6	3.6	17.4	3.5
1990	28.7	23.7	16.9	6.9	4.9	71.3	4.3	3.6	3.7	19.4	3.6
1991	27.8	23.0	16.3	6.7	4.8	72.2	4.0	3.6	3.8	16.8	3.7
1992	26.4	21.3	15.8	7.5	4.7	73.6	4.1	3.8	3.9	16.7	3.7

Table I
Cont'd

		AGRICULTURE %	HANDICRAFTS %	SOCIAL SERVICES %	Total %	Total %	Total %	STATE %	STATE %	STATE %	Total %	Total %	Local Govt %	Total %	Local Govt %	Total %	Local Govt %	Education
1975																		
	1	13.3	4.8	0.9	1.1	5.3	2.5	14.6	0.0	0.0	0.0	0.0	0.0	7.2	7.2	7.2	7.2	
	2	13.9	5.2	0.9	1.0	5.0	2.3	14.5	0.0	0.0	0.0	0.0	0.0	7.1	7.1	7.1	7.1	
	3	14.5	5.2	1.1	1.0	5.0	2.2	13.8	0.0	0.0	0.0	0.0	0.0	6.9	6.9	6.9	6.9	
	4	14.9	5.2	0.9	0.9	4.7	2.1	13.5	0.0	0.0	0.0	0.0	0.0	6.7	6.7	6.7	6.7	
	5	15.1	5.4	1.6	1.2	5.1	2.3	13.3	0.0	0.0	0.0	0.0	0.0	6.7	6.7	6.7	6.7	
1980																		
	1	15.2	5.4	1.6	1.2	5.2	2.3	13.2	0.0	0.0	0.0	0.0	0.0	7.1	7.1	7.1	7.1	
	2	16.1	6.3	1.3	0.9	5.3	2.2	11.5	0.0	0.0	0.0	0.0	0.0	7.0	7.0	7.0	7.0	
	3	17.0	7.1	1.4	0.8	5.4	2.3	11.5	0.0	0.0	0.0	0.0	0.0	6.8	6.8	6.8	6.8	
	4	17.2	7.2	1.5	0.8	5.3	2.3	11.6	0.0	0.0	0.0	0.0	0.0	6.7	6.7	6.7	6.7	
	5	18.1	7.0	1.6	0.7	5.3	2.3	11.1	0.0	0.0	0.0	0.0	0.0	6.5	6.5	6.5	6.5	
	6	17.8	7.1	1.5	1.1	4.8	2.1	12.3	0.0	0.0	0.0	0.0	0.0	6.6	6.6	6.6	6.6	
	7	18.0	7.1	2.0	0.9	5.5	2.3	11.3	0.0	0.0	0.0	0.0	0.0	6.6	6.6	6.6	6.6	
	8	18.3	6.9	1.8	0.8	5.4	2.3	11.1	0.0	0.0	0.0	0.0	0.0	6.5	6.5	6.5	6.5	
	9	18.9	6.9	1.7	0.8	5.3	2.2	11.0	0.0	0.0	0.0	0.0	0.0	6.3	6.3	6.3	6.3	
1990																		
	1	21.1	7.4	2.0	0.8	5.5	2.3	11.4	0.0	0.0	0.0	0.0	0.0	6.8	6.8	6.8	6.8	
	2	22.6	7.9	2.2	0.9	5.4	2.3	11.7	0.0	0.0	0.0	0.0	0.0	7.0	7.0	7.0	7.0	
	3	23.3	8.2	2.4	0.9	5.6	2.3	13.3	0.0	0.0	0.0	0.0	0.0	7.1	7.1	7.1	7.1	

Housing Conditions and Poverty

Poverty, housing conditions and the age distribution of the population interact to provide the bases for fundamental policies of major socio-economic programs.

Among counties with large non-agricultural sectors Broome is one with a high percentage of elderly persons. About 15 percent of its population is 65 years or older; the State average is 13.1 percent. For the 75 and older group the county has 6.1 percent of its population; the State has 5.6 percent.

Over 6.5 percent of families (3565 persons) in Broome County have income below the poverty level. In Tioga County 1007 persons (7.0 percent of families) are in the same low income group.

The 1990 U.S. Census counts 87,969 housing units in Broome County of which 32,725 (37.2%) were built before 1939. The census does not provide information of conditions of structures so these can only be counted by house-to-house surveys. In the late 1970's I conducted an extensive sample survey of housing conditions in Broome and Tioga counties. The results indicated that about 15 percent of housing units were in serious disrepair that required extensive rehabilitation or replacement. The results were in line with studies done in other areas by other analysts.

Another direct survey is not feasible so we will use the age data to make an estimate of housing conditions. The 15 percent estimate appears reasonable based on the 32,725 units built before 1939. The lions share of these units were constructed between 1900 and 1939. Based on evidence available one can expect 1.5 to 1.0 percent of the stock of housing to require replacement each year. This rate implies that the average life of a housing unit is 75 to 100 years. Over the period prior to 1989 many housing units were repaired, but there are probably 15 percent of the current stock that is in poor condition.

The estimated 10,000 to 13,000 housing units provide a potential market for rehabilitation or complete replacement. Given the demand for new homes plus a replacement of the portion of the backlog provides a multi-year construction program

that could go on for years to come. However, this program needs government participation to assist the lower income families.

APPENDIX B

- (1) County must act now to fight economic decline
- (2) No time to Waste
- (3) Narrow focus won't solve region's economic woes
- (4) Treat basic city problems, not symptoms
- (5) Economic recovery will be tricky
- (6) Unemployment statistic form a bleak picture

B-1-1

County must act now to fight economic decline

(EDITOR'S NOTE: In the first of a two-part series that concludes next Sunday, Morris Budin, professor emeritus of urban planning and economics at Binghamton University, examines the economic problems of the Broome County region. Next week's article focuses on programs to meet the region's needs.)

By MORRIS BUDIN
Special to the Press & Sun-Bulletin

Southern Tier leaders and residents must act now to fight the economic decline that is engulfing the area.

This is the time for hard-headed thinking and concrete proposals to reduce unemployment and lay the foundation for long-term growth. It is the time to throw out old ideas that have been given lip service for years but have not produced results because they do not deal with realities.

Enough of boosterism and other empty phrases. We need proposals that will convince the new federal administration and the state administration that our concepts for redevelopment fit the current conditions, that our program proposals are solid and our budgets and operational plans are realistic. We also need to attract industry, commercial and service activities but I believe these will be hard to find.

A Proposal: Southern Tier Action Council

To start the process, organize a meeting of leaders and a broad spectrum of local inhabitants to create the Southern Tier Action Council, which would develop action programs that can be lobbied for in Washington and Albany. Our former lobbyist for military contracts have lost their shine as the defense budget is shrinking.

A preparatory meeting for STAC should be organized by political leaders to establish the initial requirements of the general STAC meeting. The meeting should include state, federal and local officials, as well as local leaders in education, health, housing, industry and commerce.

We have been trapped by old ideas that do not fit the revolutionary changes of the last 30 years.

One purpose of the meeting is to acquaint participants with the objectives of STAC. The major purpose, however, would be to establish working committees to prepare justification and specific project reports to be used to apply for assistance.

II: Effective Policy Making

Effective policy making must be based upon a clear understanding of the real conditions of the nation and the Southern Tier. The analysis must specify the proposed projects, and the significance of the projects to the growth needs of the area as well as the nation. It must include alternative sources of financing and must muster the support of political and non-political leaders as well as the general public, so the proposal must clearly identify gains and losses.

Finally, since the outcomes of the proposals will occur in the future, one must estimate their chances of success and failure.

III: The National and International Contexts

The economic problems of the Southern Tier became more clearly exposed in late 1992, but they are neither sudden or surprising. The economic and social trends have been building for decades, hidden by a thin veneer of an unhealthy prosperity based on military production and public policies that neglected the essential needs of our society.

Although the Southern Tier experienced successes in some developments — a strong university, strides in health care, expansion of some social services, growth of the arts and better roads — the area did not cope with, or even understand, a number of the fundamental problems of our society.

The area is not unique in this regard. Our nation, as well as most highly developed nations, have made similar mistakes. We are now paying for them with a worldwide depression. We have been trapped by old ideas that do not fit the

revolutionary changes of the last 30 years.

■ **Technological Progress.** Manufacturing has benefited from technological innovation so rapid we no longer need about 40 percent of our labor force in this sector to produce the quantities of goods demanded by the population, given the income distribution of the nation. (Note the qualification, "given the income distribution.") Total demand would increase markedly if we adopted policies to raise the incomes of the poorest third of the population.)

Technological progress in agriculture has been rapid in all developed economies and astonishingly high in many developing countries. India and China have become food exporters; many other Asian and African nations that traditionally suffered food shortages have reduced their deficits. Although agricultural products still dominate U.S. exports, a larger share is going to countries that lack foreign exchange to pay for them.

We have been surprised by the rapid pace of learning by industrial employees in less developed, low-wage economies. Their productivity has risen quickly. Capital equipment is highly mobile in many fields. When that technology is joined with the improved labor skills, the underdeveloped economies challenge the advanced ones in international markets.

■ **Military Production.** Military conflict and the Cold War competition have required heavy concentration of production and research in these industries to the disadvantage of other essential production. These distinctions are evident in higher growth rates of Japan and Germany, two economies that have not been permitted to get into the military production race, as compared with the U.S. and other Western nations.

Nations that commit themselves to military ventures sell their futures to the devil. Conversion of this production to peacetime output is very costly, opposed by producers who have very specialized capital equipment, and resisted by management that have become comfortable in the highly protected military markets. They are threatened by the more competitive free market.

■ **Population and Migration.** The phenomenal redistribution of the rapidly growing populations from rural areas to urban centers and then from large urban areas to nearby centers has been universal. This has concentrated poverty and dissatisfaction, making for greater social instability. Wide-reaching media make the disparities between rich and poor more visible, adding to the pressures for change.

in the public sector. The neglect of the social sectors (e.g. the operation of schools, hospitals and other medical services, institutionalized care of the aged and mentally ill, special services for the handicapped, programs to integrate minorities into society, the arts and museums, fire and police protection) has been a serious problem. In poor economies much of the neglect is unavoidable; however, for wealthy economies it is immoral. This sector provides a large source of employment as well as a large potential for growth.

The range and quality of services vary greatly among the advanced economies: Denmark, Sweden, Norway, the Netherlands and Germany are among the

leaders; unfortunately, the United States and the Union of South Africa are far behind. A major rethinking of the tax structure is essential to raise the revenues required for expanding these services. We must also reconsider what roles are to be played by the free market in providing social services.

■ **Infrastructure Needs.** The infrastructures of most nations are in serious disrepair. Proof exists in reports of the number of homeless, the poor conditions of houses in ghetto areas, the collapse of bridges, inadequate garbage elimination facilities and the poor conditions of schools, hospitals and public buildings in the United States and elsewhere.

IV: Realities In the Southern Tier

■ **Population:** The Binghamton metropolitan area had a total residential population of 264,497 in 1990, approximately 80 percent in Broome County and 20 percent in Tioga County. The population will decline in the coming decades as the out-migration of persons ages 20 to 30 continues, reducing the size of the child-bearing groups.

In addition the area is experiencing out-migration in older age groups that is not being offset by in-migration by younger persons. Census data obscures the decline because they include the thousands of students who live permanently outside the Tier. They will generally not remain, nor raise families in the area.

The Tier is being stripped of the age groups that are most productive in industry and other economic activities. Retirees (including those forced into early retirement) are a growing proportion of the

population. The urban areas are suffering population declines in Broome County.

■ **Employment:** Employment patterns in the Binghamton Metropolitan area over the past 18 years reflect definite patterns of change that must be understood to develop programs for the future:

■ Total non agricultural payroll employment in 1975 was 99,500. It rose steadily to a peak of 123,000 in 1988, declined slowly over the next two years (1989 to 121,100 and 1990 to 119,200), then declined sharply to 113,500 (estimated) for 1992.

■ Total manufacturing employment was 36,100 in 1975, climbing to 40,600 by 1979. It remained at this plateau until 1985, then declined at an increasing rate to 30,000 (estimated) by 1992. The rate of decline from the plateau of 1980-1985 to 1992 is about 25 percent. The manufacturing sector provided 36.5 to 35.4 percent of total employment through the period from 1975 through 1984. From then on the share dropped rapidly to 26.4 percent in 1992.

■ The significant decline in manufacturing are in the "metals and fabricated machinery" sector, where 21,500 were employed in 1975. Employment rose to its peak of 34,400 in 1984, then declined thereafter to 24,200 (estimated) in 1992. This is a drop of 30 percent. In the 1975-85 period the sector provided about one quarter of all the jobs in manufacturing; since then, the share has steadily declined to a level of about 14 percent in 1992.

For the following reasons I believe the probability of success in attracting many or large industries to the Southern Tier in the near future are low:

■ **Industry is a shrinking sector**

with few opportunities in the nation, New York and the Southern Tier.

■ Competition for any potential industry will be intense. The Southern Tier's resources — quality labor force, proximity to a research university, low taxes, reasonable wages, available land, modern buildings, nearby sources of raw materials and manufactured parts, pure water, adequate sewer and transportation systems — can be matched or exceeded by others.

Each one of the development agencies is heavily focused on searching for industry, new or old. It looks like an oversupply of fishermen fishing in the same spot because they heard large fish were once caught there. The difficulty is that the report is old, about 15 to 20 years out of date.

■ The non-manufacturing sector has become more important during the last eight years. From 1975 to 1984, about two-thirds of employment was here; since 1984, growth has steadily risen from 68 percent to 73.6 percent in 1992. The most significant sector is services, rising without interruption from 13.3 percent of employment payrolls in 1975 to 23.3 percent in 1992. Within the sector there are dominant groups are retailing (14.1 percent in 1975 to 17.4 percent in 1990 and 16.7 percent in 1992) and health (4.8 percent in 1975 to 8.2 percent in 1992).

The evidence is clear from the data. The Southern Tier's pattern of employment is similar to many areas in the nation. Manufacturing has become less significant. This is not just a recent phenomenon, but as a pattern that has persisted for more than a decade. Health services and retailing are two growing sectors; however, retailing is probably at its maximum. The limited growth of local

governmental employment is the result of limited available financial resources, due to the lack of services needed in the area.

■ Retailing: Retail activity has expanded rapidly with the major malls dominating the field. Total employment of 21,300 peaked in 1988 but recently declined to 19,000. The big problem is the decline in the older established retailing centers. Downtown Binghamton has not revived despite the stimulus of its major department store. The area is at best a secondary shopping district that would shrink further if the city's population declines. There is serious concern about the impact of the Town Square Mall in Vestal. Endicott's shopping area has been feeling the pressure of the malls, suffering closings of major establishments. Johnson City's downtown is not an important center although it has had some revival recently.

In summary, the floor space now used for retailing has expanded sharply in the past 20 years, at the time the population was stagnant and purchasing power increased slowly. We are now witnessing the end results: closings of stores, bankruptcies and older malls in decline.

The analysis of the public sector in the Southern Tier provides the basis for my proposal that we should concentrate major efforts on programs that provides jobs, but also help solve some of our long-range problems. The list provided derived from discussions with officials and other specialists. This list is preliminary, however; a number of the problem areas have been studied by agencies in detail, and there are now some estimates of their costs.

Next week: Developing programs to meet the region's needs.

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No time to waste

U.S. leaders must change nation's economic structure

By MORRIS BUDIN

Special to the Press & Sun-Bulletin

Now President Clinton, Sen. Dole and both political parties face the moment of truth. The United States economy, despite the false optimism of our leaders, does not indicate an ability to pull out of the doldrums. We are sliding, if not plunging, into lower depths of depression.

The deterioration has become global as European economies are now suffering unemployment rates in excess of 12 percent and many governments are tottering because of corruption and a lack of ideas for inducing recovery.

The recent forecasts by economists are not comforting. Annual growth rates under 1 percent for 1994 and concerns about slow and even negative growth rates for a number of years are predicted by many organizations. We might be in a major depression that is already two years old that could rival the longer economic collapses of this century.

Pessimistic signals have become clearer in recent weeks:

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- Manufacturing production, including orders for machine tools, major transportation equipment, and construction of buildings continue to decline. Germany, at one time the economic bulwark of Europe, has been experiencing severe cuts in employment in its basic industries.

- More major firms have announced severe downsizing through layoffs, early retirements, and the lack of hiring. IBM, for example, has doubled its expected reductions from 25,000 to 50,000 this year.

- Many major international firms admit to serious losses that are endangering their very futures.

- Every nation is desperately trying to increase its exports to reduce its unemployment. Spain has an unemployment rate over 20 percent; France over 12 percent; Germany over 7 percent and rising; Great Britain over 12 percent despite a small aborted recovery; U.S.A. nearly 8 percent; Canada about 12 percent.

- The movement toward a European Economy Community has been stalled as nations refuse to give up controls over their currencies, fearing devaluation could lead to a flood of imports and loss of exports. Great Britain has allowed its currency to

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devalue so as to expand exports. The United States has allowed the dollar to devalue in terms of the Japanese yen, hoping to expand exports to and reduce imports from that nation. Japan has thwarted the tactic by merchandising its major exports effectively; U.S. manufacturers have not done enough to attract Japanese consumers.

■ There is an international collapse of confidence in the future growth of markets; a lack of leadership with ideas on how to cope with converting to peacetime conditions; a malaise augmented by the collapse of established political parties that are racked by corruption and graft. The few economies that are growing rapidly are China, South Korea, and areas in and around Singapore.

This is the time for realizing the reality this country faces. Will the leadership of the United States recognize that we have serious, perhaps catastrophic problems that will not be solved by petty spending policies proposed by Clinton's stimulus program (\$16 billion) and cut by the Republican filibuster to \$1 billion? The political games played by both parties, and the false optimism based on deficit cuts are causing harm. We are not facing a mild downturn that might be overcome by reducing interest rates and cutting the federal deficit. We are drowning in serious structural problems that must be solved with major policies.

The Basic Structural Problems

For about a decade it has been apparent that the structural organization of our economy was not designed to cope with peacetimes. We were heading toward a major depression that would expose the dysfunctions in our society. Our basic structural problems are many

and difficult:

■ We are in the midst of a long trend of reorganization of manufacturing production systems where "thinking machines" are replacing a wide range of on line workers and managers. The manufacturing sector has been increasing outputs and profits with fewer employees. Downsizing has been going on for over two or three decades, but the high levels of demand offset the rising productivity of workers.

The pattern has become evident once demand leveled off and managers also sought to get rid of surplus employees. We must expect that the manufacturing sector will not provide the high percentage of employment of the labor force that it did in the past.

■ We have witnessed the rapid rise of competition from less developed economies in manufacturing and agriculture.

Less educated labor forces could achieve good productivity levels even in so-called high technology manufacturing. Such productivity levels plus low wages has threatened the dominance of Japan, United States, Germany and other leaders.

■ Converting our military industries to peacetime markets is extremely difficult. If the conversion is toward a service economy we will have a lower skill, lower pay system that will lower our standard of living.

■ We are losing our agricultural exports as the "green revolution" has been successful. Our markets are in the poorest nations that need to be subsidized.

■ The "junk bond" and buy-out craze of the 1970s and 1980s has had some adverse impacts that have weakened the financial structures and research activities of a number of the takeovers. The economic downturn has exposed the weaknesses; some of the mergers have had to be reversed to avoid serious

cont'd

■ Political and social forces have been operating to reinforce the instability of our economies. The prosperity of the 1970s and 1980s opened opportunities for corruption in governments and businesses. Dominance by one party opens the opportunities for illegal activities as are now being exposed in our country, Japan, USSR, Italy, Britain, South Africa, and many other less developed nations.

■ The deteriorations of urban areas, school systems, health services, housing conditions, and transportation systems that contribute to social decay.

Trapped by Unrealities

Add to the real dysfunctional conditions of the system the unrealities that have been indoctrinated by various ideologies from the right to the left. Attitudes are widely held that governments are non-creative, if not downright destructive in economic development; that government deficits are at least unproductive, if not destructive; that government regulation can only damage business growth; that all taxes are deleterious; and, that there are not ways to improve racial, poverty and other social problems.

We are now damned by repetitive quackings in empty political phrases such as, "tax and spend, tax and spend, tax and spend" and Perot's homilies that government deficits create our real problems—phrases that might have meaning in particular contexts, but do not apply to our present conditions.

President Clinton recently presented a "stimulus package" of \$16 billion. It was very inadequate to meet even the limited problem, but it was a positive move. Trapped by Perot's preaching on the deficit on one side and Senator Dole's drive to undermine the new administration, the proposal was stymied. The final outcome was a ludicrous program

of \$1 billion. Even more disappointing was Clinton's restrained acceptance of the results, rather than a sharp rebuke. Harry Truman would have given them hell!

This economy needs a stimulus of about \$200 billion this year to start: 1) rebuilding the physical structure of ghetto areas; 2) reconstituting the social service structure of urban areas that have been neglected for a decade; 3) modernizing the educational system and expanding college opportunities to students; 4) rebuilding the transportation infrastructure; 5) coping with environmental conditions (floods, soil erosion, waste disposition, etc); 6) retraining programs; 7) expanding police services

and anti-drug programs.

Why not try to win?

Mr. Clinton should now be on the offensive by going to the public to explain the magnitude of the depression and the costs of recovery.

He must stop minimizing the needs by false optimism that things are improving, that the fall of the interest rate was helping the housing market and the general economy. The housing market rise was very brief and manufacturing showed no positive response. Neither has the evidence that there is any solutions in reducing tariffs with Mexico and Canada. Contrary evidence is present in Europe, where the leaders are not rushing

toward free trade as they fear that more unemployment could result. Everyone wants to export; no one wants to import at this time.

If Clinton believes that a very inadequate economic program, based on compromises and deals with opponents, will bring about his re-election in 1996, I think he is playing the long odds. He would probably be better off if he took a bold stand on strong recommendations.

If conservatives thwart his programs he could follow Harry Truman's method to fight them. If his own party does not support him, then he can at least feel that he has fought honestly for what he believed is right for his country.

Narrow focus won't solve region's economic woes

By MORRIS BUDIN

Special to the Press & Sun-Bulletin

In February 1991, the Broome County Partnership Council issued its final report which became the basis for Partnership 2000's program, the formation of a council of governments and the consolidation of services in the county.

The primary objectives of these proposals are to reduce the costs of services and lower taxes.

These goals will certainly appeal to most people; however, the emphasis of the Partnership appears to be primarily on advantages for the commercial and industrial sectors. My surmise is based on the proposals to have a county-wide reassessment of properties and a change in the method of distributing sales tax revenues from a population-based distribution to one based on sales volumes of municipalities.

Assessments of houses can be fairly consistent because the volume of sales is generally large enough to permit comparisons. In contrast, the number of transactions of com-

mercial or industrial properties is very low, so comparisons are just about impossible. Furthermore, the value of a parcel of land and the building on it depends on the profit of the product produced in it and on the share of that profit attributable to the land and building.

These valuations are usually impossible to make, so usually these assessments are negotiated between the owner and the government. If they do not agree, the matter would go to court. In the present economic conditions, the possibilities of lower assessments increase because business conditions are less favorable.

When the Partnership report was issued, my analysis of economic conditions in the Southern Tier led me to believe that Partnership was focusing on relatively minor issues while neglecting the major developmental problems. The recent rash of layoffs and early retirement programs by major employers bears out my concerns.

A few weeks ago, the leadership of the Partnership realized that the

economic downturn that had been slowly draining us had become a flood affecting nearly all sectors. Jessie Pevear, executive director of Partnership 2000, announced a campaign to raise \$2 million — half to be used to study problems and half to search for new industries.

Given the long-term trends of declining employment in manufacturing, now compounded by additional losses due to the depression, the search will be monstrously difficult. Employment opportunities in the public sector (e.g., infrastructure construction, education, health, administration) have had long-term upward trends, but are now temporarily retarded by budget cuts and reductions in military expenditures. Once these are straightened out, these areas will recover.

The Broome County Council of Governments should be the basic search unit, assisted by Partnership 2000 and other interest groups. It would be unfortunate if the widest network of organizations is not used in this difficult activity. Some form of cooperative action among local governments (e.g., councils, regional planning bodies, or statewide research agencies) is essential to coordinate planning and search. Such agencies should be advisory to municipal executive and legislative bodies.

When the subcommittee drew up its report, some members saw the functions of the Council of Governments to be broader than service reorganization. I believe its major functions should concentrate on regional development. A major function should be the organization of a lobbying unit to study the employ-

ment opportunities available through all new legislation and actively pursue them in Albany and Washington. A number of states have established such offices, and they have paid off handsomely.

The council also should foster joint searches by municipalities in the county. Joint actions should include agreements to share costs and gains, including taxes from successful ventures. It also means that municipalities will not engage in independent cutthroat giveaways to attract firms.

In the area of research, the Council should provide a framework for development of the area based on a realistic evaluation of the roles of major cities and smaller communities in the coming two decades. The analysis should include, commercial growth, housing needs and programs, industrial land set-asides, transportation networks, water resource developments, river bank usage, health and education programs.

Let us briefly introduce four public sector areas that should be expanded in Broome County:

1. Education: An expanded education program to serve the multifaceted needs of an area seeking to convert to a peacetime economy should include:

- Tutorial programs for students.
- Apprenticeship programs and vocational training for those who do not want to pursue more advanced education.
- Retraining programs for those recently laid off.
- Special higher education programs for unemployed managerial personnel.
- Advanced degree education in

public health administration, applied process engineering and associated fields.

■ Reintroduce language, music and other cultural subjects that were eliminated from curricula in recent years.

2. Housing: From studies I and others have made of housing conditions in the county, the general conclusions are that approximately 10,000 dwelling units (nearly 15 percent) in the county are seriously deteriorated, requiring extensive renovations or total replacement.

As expected, the units are usually occupied by lower income and often elderly families. Some types of subsidies would be needed to rectify the condition.

This is not the article to go into details of various types of housing programs that are on the books but haven't been funded in recent years. A number of these can be applied without increasing the tax load on the community, and, in fact, could add revenues.

Inventive uses of idle or poorly used lands, plus loan guarantees to reduce interest rates and temporary partial tax abatements could enhance tax revenues and increase ownership of homes by middle-income families.

3. Medical Research: The region has the potential to participate in an expansion of research and services in geriatrics, home nursing care, prenatal care and public health administration.

4. Environmental Programs: These include the unsolved problems of flood controls, land reclamation, solid waste disposition, and reforestation. Such programs pro-



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Morris Budin

vide opportunities to employ large numbers of unskilled and semi-skilled persons.

Searching for private-sector industrial firms might be more productive if they are complemented by our established industrial base. A few suggestions are:

- Medical instruments and devices.
- Communication equipment (especially ceramics).
- Computerized control system for high speed rail.
- Switch gear equipment.
- Aeronautical control systems and training operators of them.
- Fiber glass products.
- High density television.
- Research to make traditional power sources (coal and oil) less damaging to the environment.
- Systems analysis for government and industry.
- Data collection and retrieval.

Without question, we need a broad attack on the problems involved in the major reorganization of our economy to move it from a military to a peacetime mode. The process will require extensive cooperation between the public and private sectors. The free market mechanisms alone are not suited to the task.

REAL BASIC CITY PROBLEMS, NOT SYMPTOMS

The riot in Los Angeles has been followed by a number of proposals, generally not well thought out, on what should be done to avoid such terror in the future. Unfortunately, most of these proposals do not deal with the basic problems but are focused instead on surface symptoms of the destructive events.

President Bush has proposed tough law-and-order actions to put a temporary lid on the explosive situation. In reality this is an anti-gang and an anti-drug program, plus an undefined economic quick fix to "self-start" the economy. He added an appropriation to compensate businessmen for part of their losses in the riot.

Vice President Quayle places emphasis on the need for new family values that are to appear mysteriously out of the rubble of the ghetto. He has not proposed any specific programs to cope with the real issues, so his pontifications may be classified as political hogwash in appeal to moralizing conservatives and closet racists.

HUD director Jack Kemp proposes establishing "enterprise zones" to attract industries into depressed neighborhoods by offering tax abatements, low-interest loans and accelerated depreciation to these firms. In addition, cities could apply for grants or loans to rebuild their infrastructures (streets, water and sewer systems, police and fire protection, transportation, etc.) that service the area.

Unfortunately, Mr. Kemp's zealous proposal seems to be poorly researched. It is not a new idea. It has been tried here and abroad with little success. In most attempts the few successful cases were well stimulated by government contracts to firms that were induced to the zones. Furthermore, to depend on industrial growth in areas that lack trained workers as well as other production advantages is to play against long odds. The odds are worse if one is looking for new firms.

One need only review the history of employment in industry in the United States over the past three decades to see the real problems. The industrial sector has had a long-term pattern of profitability with periodic recessions, but it has not been a sector with growth of employment opportunities. Very few industries have had positive employment patterns for years preceding the present depression. Job losses for fewer

skilled workers have been serious.

In the present depression this pattern of decline has spread markedly to those in skilled and managerial positions. Recent reports from major manufacturing firms indicate that many expect the reductions to remain even when production improves.

Studies of the few successful enterprise zones indicate that only very little of the inner city is affected by an incoming industry. Reconstruction tends to be in the immediate locale of the facility. One also finds that industries are often drawn from other cities with run-down areas, drawn by the tax advantages. The end result is the reshuffling of ghettos with negligible growth in employment for the nation as a whole. Finally, it is evident that most firms draw their skilled and managerial personnel from outside the zone.

Mr. Kemp has a second proposal: sell to low-income families the units they occupy in public housing projects to give stability to the neighborhood. A noble but empty proposal when one considers the details. First, a very large proportion of these housing units was built three or more decades ago, and essential repairs are required on most. The costs of such renovations are very high. Will the government do the repairs before putting them up for sale? If so, what would be the market price? Too high a price would exclude the low-income buyer; a low price opens the deal to speculative buying and reselling. A recent study of sales of such apartments to occupants indicates that the average income of the buyers is about \$16,000 — more than double the average income of over half of the incomes of families residing in these units.

We now turn to multidimensional programs, parts of which have been proposed by a number of legislators and Governor Clinton. By dealing with a spectrum of problems one increases the costs, but also gets closer to the real problems of the inner city. A number of the proposals are predicated on a great deal of local neighborhood control. When analyzed further it is evident

that federal and state governments also have essential roles. Clearly, the problem is so complex and so ingrained in the social structure that large commitments of resources as well as new ideas will be essential.

■ Developing private sector jobs through enterprise zones is one element, but one should expect that this would be only a small part of a total employment program. Jobs and inner city renewal are so critical to this alienated population that one cannot rely on the vagaries of attracting new firms through the free market.

Real jobs and real M. Budin evidence that the government is committed to renewal can be generated if the public authorities have well-planned public sector projects. Plans for a large number of such projects are on the shelves of most city planning offices.

■ Public sector programs must be a major source of employment. Our society has come to recognize the importance of safeguarding our environment and preserving our natural and human resources. A permanent federal agency should be created to assist local governments in the planning, scheduling, and financing for infrastructure and housing projects. There is more than enough work here to establish a permanent work force for such projects. Investment in such public programs — pollution controls, flood management, forest and land management, hazardous and non-hazardous waste control — has been seriously lacking in our nation.

Add to these the repair and replacement of man-made capital — housing (probably 10 million units required), schools, hospitals, clinics, roads, bridges, public buildings, dams, dumps, etc. — that have been neglected for years as we built a gigantic military machine. A permanent work force would evolve a structure of jobs and wages that should correspond to the structure in the private sector. Recognizing the permanence of these functions, rather than vie-

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wing the activities as "make work" for temporarily unemployed workers, should alter the attitudes toward pay scales and productivity requirements. There should be no difference between the two sectors.

• Improving human resources. "I have long run impacts on our economy. This must be accomplished through changes in formal education processes, modernization of school and library facilities, and the introducing of

apprenticeship programs to meet the needs of students who wish to pursue employment in more applied fields. It also is reasonable to develop on-the-job training to raise skill levels. To avoid the misuse of such programs, the contents of these courses, the quality of instruction and testing the students should be defined and controlled by a state board.

What would be the cost of such an ambitious set of essential programs? A true measure of costs re-

quires Estimates of yearly expenditures minus the savings on yearly expenditures if the programs had not been undertaken. The latter might include reductions in the costs of welfare, crime, crime apprehension, property destruction, etc. We rarely have such estimates, so we use inflated cost estimates that are "budgeted costs."

spending \$50 billion per year for at least two decades. This can be reduced without tax increases if cuts are made in our bloated military programs. We budgeted about \$1 billion yearly during the Cold War period; certainly reductions of \$1 billion can be readily made. *

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At a meeting with Ross Perot late this past spring, city mayors indicated that their programs would require \$35 billion. I am less optimistic and believe we must consider

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Economic recovery will be tricky

By MORRIS BUDIN

Special to the Press & Sun-Bulletin

Policies adopted to bring the United States out of the present depression should not only emphasize recovery but also should focus on the long-run growth needs of the country. To do otherwise will result, at best, in a temporary recovery and probably exacerbate the deteriorating conditions of our economic and social foundations — conditions that have plagued us for at least three decades.

Unfortunately, the American public — and our political leaders — prefer to define our economic difficulties as if they were minor flaws, and all we need is something that would "jump start" the system. They flock to such simple-minded solu-

tions as lowering the interest rate, cutting the capital gains tax, giving a \$300 tax rebate to the middle class, announcing that a sales tax will be imposed next year so consumers will rush to buy now, giving a tax rebate of \$2,000 to all new home buyers, letting IRA savers withdraw their funds without paying taxes on interest earned, and forcing Japan to import more cars from us.

Each of these would have little or no effect on our present problems, and in most cases would be harmful to programs we desperately need for reconstructing the foundations of our socioeconomic system. Let us briefly look at some of the proposals:

■ Lowering interest rates would have minor impact on industrial expansion and commercial real estate investment, given the current excess capacities and the levels of demand. The policy has its major impact on refinancing mortgages on housing that

would result in small increases in income available for consumption by those who reduced their monthly payments.

However, at this time I expect that a large portion of the savings would go to paying off other debts or would be held in reserve. Furthermore, a part of the increase in the total purchasing stream would be offset by declines in consumption by those persons who have lost income due to lower interest on savings accounts and CDs.

■ President Bush's big drive to reduce the capital gains tax would be a boon for wealthy speculators, but would have minor effects on employment. A more reasonable approach would be accelerated depreciation on all new investments in physical plant and equipment and expensing of re-

search.

■ Tax rebates are pure political gimmicks that politicians love because they win

votes. Unfortunately, they are the wrong medicine for the economy at this time. Most rebates would go to debt repayments or be held in reserve. This proposal is contrary to the long term needs of our economy. A major complaint by economists is that our economic growth is slow because we save and consume too much. Tax rebates emphasize consumption increases rather than expanding investments in the private and public sectors.

■ What about increasing exports, especially to Japan? Or, what about restricting imports?

Every nation would oppose a policy that seeks to cure our economic woes by dumping our unemployment on them.

Restricting imports might be a temporary palliative but would result in higher prices here and retaliatory restrictions by others on our exports. An economy as large as ours — in which exports constitute a small portion of our gross domestic production — should use recovery policies that are directed to internal solutions for recovering from downturns.

What are the fundamental problems and which sector — private, public or both — should be responsible to deal with them? The major problems faced by the middle class (the 1990 favorites of politicians) are generally the same as those troubling all groups. They are problems affecting the whole society and require social solutions.

Environmental-Physical Problems

1. Deterioration of urban areas that were once only big city problems are now prevalent in many smaller cities and in villages as well. Housing programs, once rejected

because they were needed only by lower income minorities, are now needed for moderate income families irrespective of race. We have become more aware of the housing needs of the aged, handicapped, and the homeless as the depression has worsened.

2. Control of environmental pollution (water, air, and land) and the disposition of hazardous and non-hazardous wastes.

3. Control of floods; reduce the misuse of land that results in erosion, salinity, and desertification.

4. Lack of adequate mass transportation systems.

Human Problems

1. Unemployment was ignored upon for years as a problem of unskilled minorities who lacked education; we now recognize that it has become a major problem for many educated and skilled blue-and-white-collar employees. It will persist as a problem after recovery.

2. We lack adequate affordable medical services for about two-thirds of our population, including prenatal services, child care and programs for the aged and the handicapped.

3. Our education system, which was never of high quality in many areas, has been allowed to deteriorate at a crisis rate. Subjects have been dropped from curricula; laboratories are missing or poorly equipped; buildings are in poor condition; even textbooks are in short supply. To add to the catastrophe, teaching quality has declined seriously and must be improved.

4. Despite our productive agriculture, hunger and poor diet due to economic conditions affects about one-third of our population. We have farm resources and surplus stocks to solve the problem, but we

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lack the will to change the laws that create the situation.

Anti-social Problems

1. Drugs and violent crime have become endemic.

2. Fraud, excessive speculation and widespread mismanagement have weakened our banks, insurance companies and industries. If we are going to correct and control such behavior, we will need more effective auditing procedures.

Governmental Problems

1. Our income tax structure must be revised to increase tax rates on the higher incomes. Some form of revenue sharing between the federal government and the states and localities is essential to overcome the vast difference of wealth. The dependence of localities on real estate taxes is a major source of the differences in the quality of education among states and among communities. Our tax structure is designed to perpetuate inequality of opportunity; great inequality is a serious threat to democracy.

2. We are suffering the fatal disease of power states: Excessive expenditures on military activities, excessive concentration of power to engage us in wars, and excessive hubris that engages our interest in controlling other nations. These lead to neglect of the internal needs.

The development of our economy is to a great degree influenced by the patterns of recent changes. We can expect the industrial sector to employ a smaller proportion of the labor force, a pattern of the past and now accelerated by the depression. We cannot expect a major reabsorption of the recently unemployed back into industry.

Many analysts have predicted that we will become more of a service economy. That shift has been evident for about three decades, but it has slowed markedly in recent years.

Transferring resources to services (excluding professionals) will mean less income. The major expansion will probably be in the public sector to meet the needs identified above: education, health, crime control, pollution control and social welfare, including housing.

We face a crisis far worse than the banking collapse or the gulf war. The administration put the nation further into debt (hidden, in part, by separating the expenditures from the budget). The leadership had no questions about how to finance these. It was done. If we must go into debt to deal with this economic crisis, let us do it. To do less would court further economic decay and social instability.

Unemployment statistics form a bleak picture

By MORRIS BUDIN

Special to the Press & Sun-Bulletin

The unemployment problems in the Southern Tier are more serious than what is reflected in the periodic unemployment rates reported by the United States Department of Labor. These rates (rate equals number of unemployed divided by number in the labor force) are supposed to be snapshots of conditions of the economy but fail to provide a clear picture for a number of reasons:

■ 1. If the estimates of the number of persons in the labor force and the number of unemployed are based on household surveys or on employer surveys those tend to underestimate the real rate due to biases in their methods. (The major sources of bias are provided in a later part of this article)

■ 2. This simple rate does not provide the public or policy makers with sufficient details on the sources of unemployment, their magnitudes, or the characteristics of

the unemployed persons. Lacking these details it becomes impossible to understand trends in the economy or propose policies to correct the problem.

Fortunately, the Department of Labor servicing the Binghamton Metropolitan Statistical Area has recently compiled detailed data on the subject for the 1988-1993 period. These data are used in the analysis that follows as guides to understanding the unemployment crisis and to policies that may be applicable.

The Problems and Some Guidelines to Policies

■ 1. The number of non-agricultural jobs in the BMSA in September 1988 totalled 123,400, but by September 1993 had declined to 111,500, a loss of 11,900 (9.6 percent). The reductions have been accompanied in some of the larger firms by payments for early retirements that have provided temporary cushions, but cannot eliminate the concerns of former

employees over incomes for the future and how they will affect standards of living.

The impact of such negative expectations has already been felt in the durable and semi-durable retail markets, and one must assume conditions will worsen as the initial bonuses are used up or carefully saved for the rainy days. The decline in income could not come at a worse time for retailers considering the increased competition from new malls. All of these contractions will affect tax revenues and expenditures by communities.

■ 2. The durable goods manufacturing sub-sector declined from 32,600 to 22,500 jobs in the 1988-93 period. The loss of 10,100 jobs (31 percent) has occurred in a sector that had provided more than one-fourth of all jobs in the past decades but now provide only 20 percent.

The losses in communications and aircraft industries, both military and non-military will be very difficult to recover.

Morris Budin is professor emeritus of urban planning at Binghamton University and a frequent contributor to the Viewpoint section. In today's article, he examines unemployment in the region. Next week, he'll look at strategies for economic recovery.



Morris Budin

These industries are going through major competitive shake-outs that have seriously weakened local giants and new competitors in this nation and from abroad will probably continue to cut into production in our market.

Considering the negative employment trend in nearly every durable goods industry in the country for nearly two decades and the recent accelerated layoffs we doubt if this subsector offers strong re-employment opportunities in the future.

■ 3. The non-durable manufacturing sub-sector faces similar prospects. It suffered a loss of 1,000 jobs (6,300 in 1988 to 5,300 in 1993) for a 15.9 percent drop.

The Binghamton area had been a strong manufacturing center where about 40 percent of its employment came from its manufacturing sector. Now these industries provide less than 30 percent of all non-agricultural jobs. This pattern is not unique throughout the nation and its very prevalence indicates how difficult it would be to try to recover jobs in manufacturing.

■ 4. "Construction and Mining" suffered a similar loss from 6,300 to 5,000 (20.6 percent). Road construction may have some revival if the national or state governments initiate programs.

The major opportunities are in the housing field, but here subsidized housing for lower and moderate groups would provide the largest potentials. In addition, there are opportunities in housing for special groups (homeless, aged, handicapped), for social facilities (schools, recreations, etc.), and renovation of old houses.

■ 5. The Total Service Producing Sector has had an increase of 400 jobs (78,300 to 78,700). Within the group, Wholesale and Retail Trades, despite the growth in new malls, lost 1,100 jobs (25,400 to 24,300) (4.3 percent). This sector will probably continue to shrink.

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Other non government service jobs grew 2,400 (23,500 to 25,900) (10.2 percent). This sector now provides 23.2 percent of all jobs, and includes health, social, financial and insurance services.

Health and social services dominate, providing about 12 percent of all jobs in the area. It is these latter services that offer growth opportunities.

Despite all the discussion and criticism of government employment levels, one finds that it has declined by 800 jobs (20,700 to 19,900) (3.9 percent). The sector provides 17.8 percent of all jobs. The most neglected areas have been in education, crime control, environment and services for the poor. Jobs can be created in this sector but the public must accept higher taxes or additional deficits.

The Department of Labor has provided some very depressing data on the trends and characteristics of persons collecting unemployment insurance in various years:

■ 1. In the early 1980s the number of different persons collecting unemployment benefits per year was in the range of 11,862 to 12,729. By 1988 it had declined to 7,054, and rose thereafter to 10,373 in 1991. When the law was passed allowing additional benefits beyond 26 weeks of payments, the total jumped to 13,639 by 1992 and is close to that level for 1993.

Over half of the beneficiaries in 1992 were between 20 and 39.9 years of age; another 20 percent between 40 and 54. This is a recession that has struck the young and more productive.

Over half of the beneficiaries have had high school education; another 28 percent have had college and graduate education. It is evident that ours is a fairly well educated work force. Jobs are the issue, not education. Retraining may help some, but does not appear to be the solution.

The overall picture of the labor market in BMSA is not encouraging. Population in the county is declining due to outmigration of the young who cannot find employment; this pattern is hidden by the increased number of students who come in for their college education. Outmigration by the 24-55 age group is evident and will worsen as layoffs continue. The census estimated a net out-migration of 8,100 between 1980 and 1986, and that figure is certainly higher from 1988 to 1993.

The Problem of Counting the Unemployed

The unemployment situation is clearly serious but what is the picture provided in the published rates of unemployment? The estimates for 1988 were 4,590 unemployed for a rate of 3.6 percent based on an estimated labor force of 127,500. By 1992 the rate was estimated to have been 6.7 percent (8,075 persons) based on a labor force of 120,500.

The rate for 1988 is unbelievably low, far below the 5 to 6 percent level often defined as "full employment." Anyone looking at the job market knows that this was not the case. The 1992 rate of 6.7 percent is as bad a misrepresentation because the area was in the midst of severe cutbacks through layoffs and "early retirements" by people, many of whom did not want to retire.

Why did the report only indicate an increase of unemployment of 3,485 (8,075-4,590) from 1988 to 1992 when the detailed data showed a loss of 11,900 jobs?

Why did the labor force decline by 7,000 (127,500-120,500)? It cer-

tainly could not be due to early retirements since only 18.5 percent of the job losers were over the age of 54 and this would total 2,200 if all retired. A very unlikely result. Could it be due to outmigration? Again unlikely since the number of net out-migrants would include not only the breadwinner but also other family members who would not be in the labor force. Such moves also include many retirees who left employment years ago.

No, the fault is in the methods used to estimate the rate. It is not based on any actual counts of the persons in the labor force or unemployed, or on any statistical sampling. Various indicators, including numbers collecting unemployment compensation, reports of employment changes at selected firms that are manipulated with a weighting system that probably does not apply to this area. Statisticians with the Labor Department are well aware that the estimates derived are very questionable, but this is the prescribed method.

I do not know what the real value for the labor force and unemployment levels were in 1988 and 1992 but I would hazard some guesses. For 1988 the labor force was 125,000 to 126,000 and unemployment was about 6,000 to 6,500, so the range of unemployment rates is estimated between 4.76 and 5.2 percent. Now, if these are re-

sonable estimates let us estimate the rates for 1992. The labor force probably declined, due to retirements and net out-migration, to 124,00 to 125,00, unemployment rose to a range between 15,000 to 16,000 considering the huge job losses 1988-92 added to the initial unemployment in 1988, minus the retirements. If these estimates are close to reality we are at unemployment rates of 12.0 to 13.0 percent.

Would it not be better to use household surveys to determine the rate? They are used periodically by the Bureau of Labor Statistics and are expensive. But the results are questionable even after years of testing alternative questionnaires and methods to correct expected errors in responses. The results tend to underestimate the true rates of unemployment because of responses of discouraged job seekers (predominately women, young persons, elderly males and students) who answer that "they are not actively looking for work" even though they would take jobs if they were available. The response removes them from the "labor market" and "unemployed" categories.

Also excluded from the unemployed group are persons who are not working but have a defined date to return to their jobs. Persons who are ill and cannot work at the time of the interview are excluded from the "unemployed" group, and on the other hand, many part-time employees are classified as fully employed.

Analysts have challenged results of such surveys, claiming they underestimate by as much as 30 percent depending on the degree of unemployment and duration of high unemployment in an area.

It is clear that the detailed data recently developed by the Labor Department is far more meaningful and useful than the summary rate. Artificially understated unemployment rates that are published create a false optimism about recovery potentials and are often used by groups that oppose expanding government programs to stimulate employment, lengthening unemployment insurance payments, and providing essential assistance to those in need.

*B-6.3***Unemployment Insurance Beneficiaries (1992)**

Age	Total	Percent	Males	% of Males	Females	% of Females
Under 20	176	1.3%	113	1.3%	63	1.3%
20-24	1,488	10.9%	998	11.3%	490	10.3%
25-34	3,959	29.0%	2,610	29.5%	1,349	28.4%
35-39	1,485	10.9%	984	10.9%	521	11.0%
40-44	1,225	9.0%	757	8.6%	468	9.8%
45-54	1,762	12.9%	1,070	12.1%	692	14.5%
55-59	619	4.8%	395	4.5%	254	5.3%
60-64	379	2.8%	247	2.8%	132	2.6%
65-Over	375	2.8%	239	2.7%	136	2.7%
Unknown	2,092	15.4%	1,440	16.3%	652	13.7%
TOTAL	13,890	100%	8,833	100%	4,757	100%

(Source: U.S. Department of Labor, Binghamton Metropolitan Statistical Area office)

APPENDIX C

- (1) Well-planned action can help region rebound economically
- (2) Recovery depends on right kinds of jobs
- (3) Welfare Reform
- (4) Debt and deficit: Tools or threats

Well-planned action can help region rebound economically

(EDITOR'S NOTE: In the second part of a two-part series on the economic problems of the Broome County region, Morris Budin, professor emeritus of urban planning and economics at Binghamton University, examines programs to meet the region's needs.)

By MORRIS BUDIN

Special to the Press & Sun-Bulletin

Southern Tier leaders and residents must act now to fight the economic decline that is engulfing the area.

This is the time for hardheaded thinking and concrete proposals to reduce unemployment and lay the foundation for long-term growth. It is the time to throw out old ideas that have been given lip service for years but have not produced results because they do not deal with realities. Enough of boosterism and other empty phrases.

I propose that we should concentrate major efforts on programs that provide jobs, but also help solve some of our long-range problems. The following list is derived from discussions with officials and other specialists.

Physical Structures: Housing and Neighborhood Development

Affordable housing for lower- and middle-income families: Estimates indicate that about 15 percent of the dwelling units in Broome and Tioga counties need extensive repairs or complete replacement. A multi-year program would re-employ construction workers, and require apprenticeship training as well. Well-designed programs with moderate tax- and interest-rate subsidies would permit many to own their homes.

Neighborhood renewal that includes demolishing ruined structures, renovating housing and developing recreation and social facilities. Typical areas: Clinton Street, Binghamton; Front Street, Waverly; Floral Avenue, Johnson City. Opportunities for apprenticeship programs.

Special housing designed for handicapped persons; halfway housing and group housing for the mentally and emotionally handicapped; group housing for the homeless.

School and public building renovations and new construction.

■ Bridge and highway repairs.

Environmental Pollution Controls

This activity offers major opportunities to train recently unemployed managers and engineers. Many of the currently functioning programs are seriously understaffed. Plans are incomplete, applications are not processed on a timely basis and violations are not pursued because of the shortages. In addition, many of these programs require public cooperation that can only be maintained by extensive education programs.

Needed programs include:

- Sewage treatment expansions for present needs and to attract new industries.
- A total plan for the disposition of putrescible waste including composting, and other methods of waste reduction. This is essential for extending the lives of garbage dumps.

- Disposal of solid wastes (steel, aluminum; plastics, etc.) by returning them into the production stream.

■ Temporary storage of hazardous waste.

■ Land reclamation.

■ Water purification.

■ A curb to illegal dumping.

Education Programs

- Special retraining programs for early retirees and others seeking to change careers. Our schools need teachers of mathematics, the physical sciences, business subjects and biological science.

■ Expanded Head Start programs.

- Mentoring programs for students who need assistance.

- More teachers to allow schools to reduce class sizes and give students more individual instruction.

- Expanded special programs for children with physical or mental handicaps, dyslexia and slow learners, as well as fast learners.

- Extension of teacher activities to 12 months. Use summer months for special education, contacts with parents and students to bring the meaning of education on a one-to-one basis.

- Training programs for teachers to learn new teaching methods and subject matter.

- Expansion of formal teaching programs and coordination with apprenticeships.

See FORGING/Page 4E

Health Programs

- Prenatal care.
- Child care.
- Research in care for the aged.

Development of new braces and prosthetic devices.**Parks and Recreation**

- Riverway (walkway) program that would provide a recreation area along the two rivers.

Youth Crime Programs

- Prevention and early intervention programs dealing with urban and rural dysfunctional groups. These have been seriously under-budgeted for years.

Social Service Programs

The following programs are functioning but are limited in the amount of service provided because the funds are "capped." Reductions in federal funds have created problems when the number of families receiving direct cash assistance has risen from 2,800 households in 1989 to 5,000 in 1992.

- Child abuse and neglect.
- Foster care.
- Adoption.
- Adult protection.
- Employment services (job self-sufficiency).
- Substandard housing.
- Homeless persons on public assistance.

Public Health Programs

Underfunding of these programs has caused delays in furnishing services or has not permitted them to start.

HIV testing.

■ Outreach programs to educate the public about lead poisoning.

■ Research and programs for the care of the elderly.

■ Expansion of long-term specialized care.

■ Expansion of prenatal care and child-care clinics.

■ Expansion of post-hospital care programs.

■ Expansion of home assistance programs for the aged.

■ Expansion of public mental health programs, including such underfunded areas as outpatient programs, community residence programs (highly supervised and unsupervised), elderly services, children's services.

■ Policies with moderate probabilities of success

■ Developing small industries that use computer technologies (ties in arrangements of small firms to major producers).

■ Manufacture of medical and surgical equipment.

■ Communication equipment.

■ Policies with low probabilities of success

■ Attracting new major industries.

■ Attracting large retailers for downtown Binghamton.

■ Tourism as a major income generator.

■ Wholesaling firms.

I hope, if our community moves in the directions outlined in these articles, the study committees give serious consideration to the probabilities of success of particular projects. We must set aside ideological biases and be objective about social and economic needs and what can be done. But whatever must be done must be done now.

The chances of success

Based upon the condition in the Southern Tier and trends in the nation, I am led to certain conclusions about the probabilities of success of certain programs. The estimates are based on market and non-market conditions as I evaluate them.

First, the needs must be significant as the federal government evaluators would favor them. Second, I must assume that financial assistance programs would be forthcoming for the particular purposes. Most important, the quality of the application and the support of our political leadership and the public must be strong.

Policies with higher probabilities of success

1. **Education**

■ Expansion of programs to train personnel who will educate and train persons.

■ Expansion of local education.

■ Specialization of training and education programs for handicapped and special students.

■ Head Start programs.

■ Additional teachers to give more direct teaching.

2. **Environment and physical structures**

■ Housing construction and renovation.

■ Neighborhood renewal.

■ Waste disposal programs.

■ Sewer and water programs.

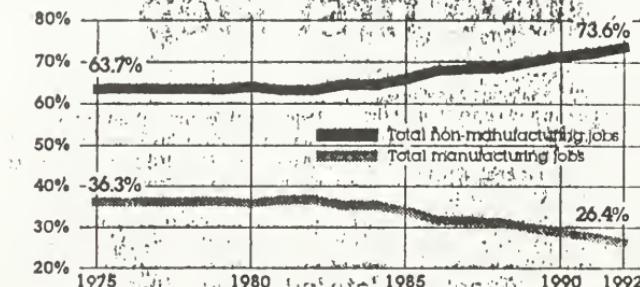
■ Land reclamation programs.

■ Bridge and highway repairs.

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PERCENT OF NON-AGRICULTURAL EMPLOYMENT WITHIN THE BINGHAMTON METROPOLITAN AREA

The chart below illustrates the rise in non-manufacturing employment within the Binghamton Metropolitan Statistical Area.

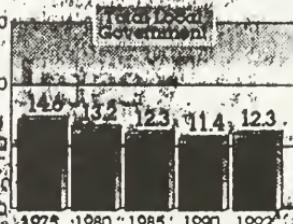
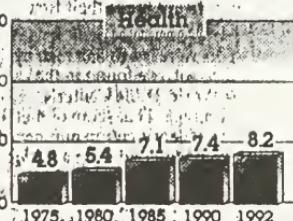
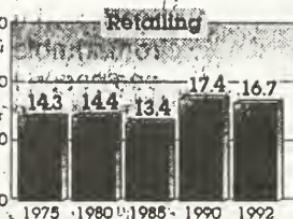
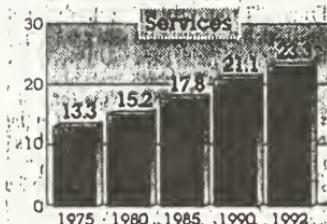


Employment trends

(In percentage of all non-manufacturing employment)

Selected employment groups and the growth or decline in employment are shown in the following bar charts.

SOURCE: PRESS & SUN-BULLETIN RESEARCH
JEFF BOYER, PRESS & SUN-BULLETIN



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Recovery depends on right kinds of jobs

By MORRIS BUDIN

Special to the Press & Sun-Bulletin

Our political leadership and the American public have locked themselves in a maze of ideologies and policies that are contrary to realities in the midst of our serious economic depression.

The public, or should I say, the media that has such an influence on opinions, wants less government spending, lower taxes, reductions in the Federal deficit, and fewer mandates by state and federal on lower government levels to provide particular services. Conservative leaders favor all of these measures strongly; liberals are somewhat more tepid but are not ready to support policies in opposition because it might mean electoral defeats.

At the same time, economic and social realities call for actions contradictory to the policies. The high levels of unemployment among the young; the explosive downsizings of industries that dump large numbers of educated, skilled and well paid persons into a labor market that does not re-employ them; our rapidly aging population; our rapidly expanding poverty population; and our decaying infrastructure need very different policies. The real needs today require more government services, and more government spending that mean high income taxes on higher income earners and higher federal deficits, plus more mandates to provide essential services.

Let us consider the unemployment conditions in the Southern Tier to support my position. The economic collapse here is widespread in the country, so the argument has broader meaning.

A recent study, "Tomorrow's Jobs, Tomorrow's Workers," prepared by Mr. Joseph J. Kozlowski and his staff of the New York State Department of Labor, sets forth the expected job market opportunities for the Southern Tier. The evolution of the job market from a strong manufacturing economy to a so-called service economy with its many serious problems comes through clearly. Policies to cope with the changes deserve full consideration.

The report evaluates career opportuni-

Morris Budin is professor emeritus of urban planning at Binghamton University and a frequent contributor to the Viewpoint section. In today's article, he looks at potential for economic recovery in the Southern Tier.



ties in 153 job categories for the present to 1997. The categories cover a wide range of occupations:

- 1. Executives, administrative and managerial (8 occupations);
- 2. Professional, paraprofessional and technical (72 occupations);
- 3. Marketing and sales (6 occupations);
- 4. Administrative support and clerical (20 occupations);
- 5. Services (20 occupations);
- 6. Precision production, craft and repairs (20 occupations);
- 7. Operatives and laborers (7 occupations).

I've classified future trends of employment into one of five groups on the basis of descriptions in the report:

- 1. Rapid growth of new jobs;
- 2. Some growth of new jobs;
- 3. Basically replacement of older job holders plus minor growth;
- 4. Nearly zero growth and possibly declines;
- 5. Clearly declining job opportunities.

Finally, the job categories have been classified as "Government Sector" if the functions are in the social sector. They are put into the "Private Sector" if the activities are primarily associated with selling for profit and are not generally financed by governments.

Let us analyze the details of the occupation opportunities and the policy implications.

C - 2 - 2

■ The government sector will provide the lion's share of new job opportunities. The strength will be in the social services and its sub-sectors that include hospitals, medical services, geriatrics, nursing homes, and other human services. Nearly half of the occupations in this sector is expected to experience very rapid growth, another 37.8 percent will probably have slower growth. No other sector or sub-sector is expected to grow as rapidly.

However, this growth will depend upon federal legislation and adequate financing. The demand will be there, enhanced by an aging population and by opening the ser-

vices to more middle and lower income families who could not afford it without government insurance.

■ Education is expected to be the second most important growth sub-sector. Again the demand will be present, but the supply will depend on government expenditures. Over three quarters of the occupations will expand rapidly or somewhat if financial resources are made available.

■ Government "engineering" occupation opportunities will probably decline.

■ Overall, the government is expected to provide the major growth factor in the area as 47 out of 171 groups (18 are classified in both the government and private sectors) will be fast growers.

■ The private sector does not present as positive a future. Overall, out of 108 occupations 38.9 percent will probably suffer employment declines, and another 11.1 percent might have near-zero growth. The most serious losses appear to be in "clerical jobs," "construction" and "engineering."

In the private sector the most successful sub-sector appears to be "finance" with 15.4 percent growing rapidly and another 30.8 percent growing more slowly. However these growths may be offset by the 30.8 percent that might decline.

■ The "construction" sub-sector, although not appearing to have growth potential in this study, does offer major growth potentials if the federal and state governments provide funds for various types of housing and for infrastructure development.

Housing for moderate and low income families is essential. The need for new structures and for rehabilitation are evident; the Southern Tier also has its homeless and hungry families who need shelter.

Other projects that would generate many jobs are in flood controls, relocation of homes in the flood plains, waste control and disposition, reforestation, and public buildings. The list is long, and nearly all items require government funding.

■ The sum total of changes is an evolution of the Southern Tier from a manufacturing center dominated by electronics, computers and simulators to a center for education, health services and special programs for the aged. If funds are made available, the "construction" group could be revived by major housing programs.

Adding to the unemployment and job shift problems should be concern about the decline in earnings as jobs change. Layoffs, including "early retirements" often imposed with a velvet glove, have often affected better paid positions.

The average worker earned about \$35,000 per year. At minimum the 12,100 recent reductions in employment reduced the area's income by about \$425 millions per year. Can these well paid positions be replaced at similar earning levels? This is doubtful if the jobs are created in the private sector.

If clerical and operator jobs, or others in the service sector, replace the lost positions, it would be disastrous for commercial and housing sectors. Salaries would be reduced to a range of \$20,000 per year, so even if 12,000 jobs were recaptured the area's income would rise by less than half of the original loss.

Clearly, policy must be directed toward increasing employment of health professionals, housing builders, other construction workers, health managers and educators. Salaries in these fields will help sustain the total economy.

WELFARE REFORM

By MORRIS BUDIN
Special to the Press & Sun-Bulletin

Congress will be examining alternatives to current welfare laws — including proposals on "welfare" — shortly. Several weeks ago the Clinton administration released an initial draft of a welfare program that makes major changes in the existing one. In addition, experimental programs were passed in the previous administration and are now being applied in Broome County. This article compares these two alternatives and also evaluates "welfare" programs that appear to be more essential to addressing general unemployment as well as welfare problems.

The Child Assistance Program

The Broome County Department of Social Services, faced with the potential deterioration of employment conditions in the county, applied in the 1980s to participate in a new experimental welfare program: The Child Assistance Program (CAP). Broome and five other counties in the state were chosen for the pilot program in 1988.

CAP differs structurally from the traditional Aid to Families with Dependent

Children program (AFDC) because it emphasizes policies to encourage the work ethic, encourage self-sufficiency, and increase the responsibility of the absent parent to provide child support.

The redesign of the old program responds to the changing family structure — more families headed by a single female. The essence of CAP is to move the welfare program closer to employment programs for non-welfare unemployed persons. It is a realistic recognition that the two groups have some common problems when high rates of long term unemployment are developing among educated persons who have lost middle-management, scientific and skilled positions.

CAP also recognizes that a long period of declining real wages has created a large class of workers who, though working hard, do not earn enough to rise above the poverty level and must be subsidized in various ways.

The experimental CAP program seeks to accomplish the following:

■ 1. Break the poverty cycle as far as possible by establishing a principle that both parents are responsible for supporting children. Court orders would be used to enforce financial support.

■ 2. Encourage parents to work by allowing the wage earners to keep a larger share of the money earned, rather than reducing welfare benefits dollar-for-dollar against earnings. AFDC benefits under CAP are reduced gradually as

earnings rise, so there is incentive to work. In addition, CAP sets no limit on family savings and other resources; AFDC sets a \$1,000 limit. Thus, CAP is a revision of attitudes toward the poor: assistance to help families escape poverty, rather than a vengeful requirement that keeps them poor.

■ 3. CAP provides food stamp benefits in cash rather than coupons, reducing the demeaning aspects of welfare and giving more responsibility to the family. Families also are provided individualized case managers to guide the family to self-sufficiency.

CAP is an experiment that, I believe, should introduce greater humaneness into the harsh conditions of poverty. But it is only one part of real solutions. Jobs — and for many of the unemployed, training matched to jobs — are the real answers. Without a supply of job opportunities, the CAP or AFDC programs will generate disillusionment and even violence. This will be analyzed further below.

We turn now to the recently proposed program by the Clinton administration. I do not believe it is as humane or as thorough as CAP.

The possible Clinton program

Early in April the Clinton administration released its initial draft of a welfare program. The draft reflects the administration's concerns with the added costs

of new programs and the derogatory attitudes of some legislators and many citizens toward the poor. The administration has faith in education and training to make welfare recipients employable if complementary assistance — Medicaid and child care — are provided.

Costs and Savings

Aid to Families with Dependent Children has been the major welfare benefit program. Approximately \$22 billion is spent annually, and the administration proposes to increase that by about \$6 billion. The plan calls for ending all cash payments to a family on welfare after two years, but it would continue food stamps and Medicaid. Additional savings would be realized from five changes:

1. Cap emergency assistance funds for families on AFDC;
2. reduce assistance to children living with grandparents;
3. refuse all payments to non-citizens to stop persons on welfare from inviting parents to migrate to the U. S. to draw welfare;
4. place limits on additional benefits to recipients who have additional children; and
5. strengthen the program to fund and force absent parents to pay child support.

These proposals reflect both callousness and unreality. A two-year limit on cash grants will certainly increase homelessness. Unemployment in our economy is not seasonal or short-term cyclical, so a support program must deal with structural problems. This proposal is a way to destroy further family structure among the poor.

I also find that the proposals to pay for the "new" welfare program do not recognize what has happened to the values of AFDC benefits over the past decade.

Meager benefits have been constant in dollar terms for years, and inflation has eaten further into them. There is nothing to squeeze out of these incomes to pay for new programs for training.

The proposals to reduce payments to children living with grandparents, to eliminate payments for non-citizens, and lower grants for additional children would not generate large savings. These families of grandparents are close to poverty. Alien recipients (78,750 in 1990) got a total of about \$220 million, or only 1.0 percent of the annual budget for AFDC.

Training and Workforce

The core of the Clinton program is to train or retrain persons on welfare, to return them to the labor force. Initially, the intention is to get them into the private sector labor force primarily, but members of the administration admit many trainees may have to be absorbed into public sector employment. This choice should be based on social

(cont'd)

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and economic growth needs, rather than on ideological presumptions.

The administration has not come out with a workfare program; workforce (I hate the term because it is demeaning) is not a new idea, having had very limited successes in the past. Some success was achieved in the Great Depression of the 1930s and in President Johnson's "War on Poverty" in the 1960s.

Various welfare programs were instituted in the 1960-1988 period. Without reviewing each one, let us summarize the reasons for their very dismal results:

1. The tendency for local communities to replace government employees with "retrained" workers, who were paid minimum wages and whose costs were partially covered by federal grants. Unions fought the competition.

2. Inadequate funding for training mothers in the Work Incentive Program and others like it.

3. Training for jobs that were declining or non-existent (often because a local director had some

teachers available in that field).

4. Training for dead-end jobs.

5. Removing the incentive to get off welfare by reducing the AFDC benefits dollar-for-dollar against earnings.

6. Programs did not provide care of young children at low cost, so mothers could not work.

7. Loss of health coverage when employed in the private sector.

8. Training that did not improve skills.

9. Poor job market; jobs created were temporary and insubstantial.

10. Jobs in dangerous neighborhoods.

11. Transportation to work was expensive or lacking.

12. Potential employers discriminated against welfare recipients when they applied for work.

Improving Workfare

General Recommendations:

1. We must get rid of the invidious term "workfare." Unemployment is unemployment, so the program must be termed a "re-employment program" for all persons.

2. We must stop thinking about unemployment as being short-term, seasonal or cyclical. Our unemployment is a mixture of cyclical and long-term secular. Our job solutions must be designed to cope with unemployment that is structural.

3. We must accept the fact that solutions are not cheap, simple, or immediate.

4. Our search for solutions must focus on what must be done to increase the number of productive jobs, not just "make work" jobs.

5. The program must emphasize productivity not punishment.

Specific Recommendations:

1. Where possible, training programs must be linked to job opportunities that are available.

2. Jobs must be significant and permanent, with opportunities for advancement. At the same time, the rules for hiring, promotion or dismissal must be the same as those in the public or private sectors.

3. Job opportunities must be expanded in the private sector as well as the public. The public sector provides opportunities to meet social needs often neglected or postponed. Many of these projects can provide long-term employment opportunities. All of the projects below are examples of activities that would strengthen our nation:

- Housing — subsidized and special types for handicapped (include renovation and new units).

- Environment protection — flood control, land pollution controls, air and water purification.

- Waste collection and disposition — hazardous and non-hazardous, solid and recyclable.

- Urban redevelopment, including recreation facilities.

- Construction — schools, clinics, roads, bridges, viaducts.

- Services — education, medicine, police, care of the elderly.

4. Wages and supplements for particular jobs must be equal to those provided in the market.

5. On-the-job apprenticeships may be arranged for limited periods; a share of wages for these may be subsidized by the government. Only a small portion of a firm's labor force may be apprentices. Apprentices must not be used to replace permanent employees.

This proposal uses the structure and methods of the free market, something former work-fare programs did not. It does not take advantage of the welfare applicant, but treats all unemployed similarly. It also increases the possibility of stimulating the employee to be more responsible on the job.

The role for the government is also in the American tradition by providing opportunities for the nation to solve some deleterious problems that retard our progress.

Debt and deficit: Tools or threats?

By MORRIS BUDIN
Special to the Press & Sun-Bulletin

The federal debt and deficit are terms that instill fear in the hearts of voters; that drive politicians, from liberals to conservatives, to take to the lecture circuit to damn it as a threat to national solvency; that inspire evangelizing populists such as Ross Perot to bring their wrath down on the heads of leaders who have not cut spending far enough.

The terms have become rallying totems to unify opposition to legislation that might assist those who have suffered from floods and other natural disasters. Terms that cause presidents to withdraw proposals for economic recovery.

At the same time the federal debt and deficit are magical terms whose definitions and magnitudes are altered at will. Their effects can be positive or negative depending on who is supporting or opposing

ing a particular issue. Confusion over the terms is magnified by comparing the federal debt to an individual's debt. The individual does not have the flexibility to raise dollars to cover deficits, and the impacts of a personal debt on the nation is far more limited. In addition, the functions of government are not the same as individuals.

In what follows, I seek to explain the debt and deficit as useful tools to enhance policy making if properly applied, but destructive when misused.

Deficits and Social Values

In simplest terms, an annual deficit occurs when the inflows of taxes and other government earnings are exceeded by total outflows. The outflows might be for purchases, wages, salaries, grants given to persons or other governments, interest charges, and all other obligations of the federal government. The national debt is the sum of deficits from 1789 to the present.

Budin is an economist, emeritus professor of urban planning at Binghamton University, and a frequent contributor to the Viewpoint section.



It is clear from the alternatives of taxes and spending programs available that a deficit is basically a result of the social values affirmed by leaders and the political pressures they respond to. To what degree they are prepared to tax and how these taxes are distributed are expressions of values and pressures. In the 1980s the Reagan tax program favored the wealthy because the leadership opposed high taxes on this group that was supposed to invest to stimulate the economy. On the spending side, it believed that the lower income families should be forced to work, not coddled by welfare.

As a result, taxes were reduced despite a very large increase in military spending, leaving extremely sizeable deficits every year. This deficit policy allowed for huge profits and high salaries that were not taxed heavily.

By 1992 the federal government raised 43.6 percent of its tax receipts from income taxes; 10.8 percent from corporate

profit taxes; 37.9 percent from all types of social insurances paid; and 7.7 percent from other minor sources. This distribution is very different from 1980, when income and corporate taxes carried larger shares. Reflecting a change in values, the Clinton plan is to alter this distribution

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Continued from Page 1E

somewhat by raising taxes on higher incomes and corporations.

On the spending side the values and political pressures are also evident. In 1992 national defense absorbed 21.6 percent of outlays; health 6.5 percent; Social Security and Medicare 29.4 percent; unemployment insurances and welfare 14.3 percent; net interest 14.4 percent, and, 13.8 percent on all other expenditures (environment protection, farm subsidies, maintenance of properties, etc.). The distribution was more skewed toward military expenditures in the Cold War build up. The Clinton program increases social programs slightly through income adjustments, although it reduces Medicare and will tax social security payments of upper income recipients. At the same time it cuts military expenditures mildly. The Republicans prefer deeper cuts in social programs to avoid tax increases. Both are seeking to cut the deficit, but both would be dismayed by the continuation of the depression.

(probably worse by the Republican program) that would automatically redistribute expenditures toward more welfare, unemployment insurance and other subsidies at the same time as tax revenues decline.

Furthermore, let us not neglect the costs of a national health program that is the major issue for the public.

How Large Is the Deficit?

There is no single answer to the question: What is the size of the deficit? Each answer depends on what policies are being considered. The Treasury Department uses a gross public debt figure that includes securities issued by the Rural Electrification Administration, and other non-marketable depository and retirement bonds. The gross debt figure is \$4.2 trillion for 1992. Based on the "official" figure, the deficit is \$290.2 billion for 1992; it was \$269.5 billion in 1991 and \$220.5 billion in 1990.

In an attempt to measure the relative drain of the deficit on our income generating activity some analysts compare the deficit to the

Gross Domestic Product (GDP). From 1990 through 1992 the deficits as a percent of GDP were, respectively, 3.99 percent, 4.75 percent, and 4.85 percent.

At one time the federal budget did not include the Social Security and other retirement funds because these are supported by separate taxes and are expected to be self-supporting. A number of years ago, economists concluded that all inflows and outflows through trust funds should be included in the federal budget to have a complete picture. As these trust funds have been running surpluses the "official" deficit is being understated. Congress raised social security taxes supposedly to cover future increased outflows. In reality, the tax increase was a substitute for income taxes that had to be raised to cover rising deficits in the 1980s. The Social Security tax increase could have been delayed.

If one wants to derive better estimates of the impacts of the deficits on employment levels, one must refine budget figures further. Expenditures and receipts that have direct impacts on employment must be used. At present, we want to reduce unemployment from close to 8 percent to a more acceptable level of 3 to 4 percent. To accomplish this, the deficit that has been in the range of \$290 billion would have to be increased by another \$150 to \$175 billion.

The additional deficit would provide funds for such programs as: (1) infrastructure renovations (roads, flood controls, bridges, railroads, schools, etc.) that employ large numbers of lower skilled workers; (2) expanded social projects (education, geriatrics, child care, mental health, drugs, etc.); (3) environmental control programs; and (4) a national health program.

In addition, tax increases on high income families to make our tax system fairer and curb the growth of deficits where it is needed.

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Who 'owns' the national debt?

Analysis of the burden of the national debt may be clarified by understanding who are the holders of it and what they earn. The interest on the debt was 14.4 percent of expenditure in the 1992 federal budget.

The following chart summarizes ownership, percent of debt owned, and percent of the budget paid to the owners:

Owners	Percent owned	Percent paid
U.S Treasury and Trust Funds (Including retirement accounts)	25.5	3.7
Federal Reserve Banks	7.4	1.0
Private Investors:	87.0	9.7
■ commercial banks	(6.1)	(0.9)
■ money market funds	(2.1)	(0.3)
■ insurance companies	(4.4)	(0.8)
■ other companies	(4.6)	(0.6)
■ state and local governments	(13.7)	(2.0)
■ savings bonds held by public	(3.6)	(0.5)
■ miscellaneous U.S. government agencies	(18.2)	(2.6)
■ foreign governments	(12.0)	(1.7)
TOTALS	100	14.4

The earnings of the U.S. Treasury and the trust funds it manages earn 25.5 percent of the interest (3.7 percent of the entire budget expenditure). This sum goes to enlarge the funds that will be paid to the beneficiaries of Social Security and other retirement programs. Other earnings of the Treasury are internal transfers within the government.

A portion of the earnings of the Federal Reserve Banks is also paid to the government. The holdings by state and local governments and national agencies total 31.8 percent of the deficit. Payment to those holders are also used to purchase services for the public.

When all interest payments that are ultimately returned to the public in cash or services are totaled, they equal 9.8 percent of the budget — 89.1 percent of all interest paid.

Private investors (banks, money market funds, insurance companies and others) earn interest equal to 2.4 percent of the total budget; foreign investors earn 1.7 percent of the budget.

One can readily observe from the analysis that a large proportion of the debt payments return to the general public. Progressive income taxes can cope with the rest; the small amount going to foreigners is not serious. All in all, the burden of the charges is not a major problem.

—Morris Budin

President Clinton's program was originally a very limited move in these directions. His tax proposals were to reduce taxes on low income families and raise them moderately on higher incomes. His other major proposals were to: (1) train welfare recipients so they could be employed; (2) retrain workers who have lost jobs; (3) assist students who seek higher education; (4) seek to stimulate urban distress areas by developing "enterprise zones;" and (5) a national health program.

His programs have been cut back in negotiations with conservatives in both parties whose primary threat is the deficit. Clinton has been pushed back so far that his program looks more like Bush's proposals. He is placing more dependence on lower interest rates that are supposed to stimulate the private sectors. We have low interest rates but no evidence of recovery.

Would we be worse off if we adopted the proposals made by the conservatives? I believe so. They propose to reduce the deficit by: (1) cutting all government expenditures on a whole range of social programs; (2) reducing taxes on the wealthy (especially on capital

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gains); (3) lowering interest rates; (4) expanding exports; and (5) making industry more efficient.

Although the conservative recovery program appears on the surface to be feasible, even the sponsors are not completely convinced. They have been reluctant to be very specific. The extreme cuts in government spending coupled with the "downsizing" in the private sector would deter recovery now. Opportunities to export are limited by depressions in other nations and their efforts to protect jobs at home. Although efficiency is a laudable goal, there is no evidence that it has increased sales and employment.

The Deficit as a Tool to Balance the Economy

Our nation needs a policy that would maintain an average real growth rate of 3 to 4 percent per year. Given our income distribution, our saving patterns, and our demographic structure this growth rate would require deficits that average out to about 3.5 percent of our GDP. In recession years the ratio might have to rise to 8 percent, and in strong prosperities surpluses should replace deficits.

A national growth program must have real investments in human resources, durable public capital, and research. Maintaining high employment economy allows us to avoid

the losses of potential output that can never be regained. Labor resources that are not used are lost forever. Estimates of such loss are about \$350 billion in 1991 when unemployment was lower than now for 1993 we are probably losing about \$450 billion, and includes losses of \$100 to \$150 billion of annual private investment.

It is not only the size of the deficit, but what we use the funds for. Will we expend our deficits to enhance our resources? Solve our major social problem? Rebuild our devastated areas? Improve our environment? The money is only a tool.

Concerns about Deficits and Debts

Some conservative economists have expressed concerns that government borrowing to cover a deficit tends to raise the cost of borrowing resulting in "crowding out" of private investors who cannot pay the higher rates. Perhaps the situation could develop in prosperous times when interest rates and demands for loans are high. It is not the case in downturn periods. Currently interest rates and loan demands are low so the fear of pressures on borrowers is unfounded.

Perot and a number of ultra-conservative legislators are on a crusade to reduce the deficit now to zero and even go beyond to start

paying off the debt from surpluses. The advocates should explain in detail how high they would raise taxes and who would bear the burden. Also, what expenditures of government would be eliminated and how would these affect stability and growth of the country. This program would be destructively deflationary.

The Real Issues Today

The real issues involving the deficit today are *not* the burden it would place on the economy in the future. This problem is minor and can be handled by reasonable taxing and spending policies that fit economic conditions. The fundamental issues are how our government attempts to solve the economic and social crises we are in.

Sensible choices that stimulate economic growth, curb social and environmental deterioration, correct urban and rural decay, educate our labor force so we can maintain low unemployment levels are the essentials.

If we concentrate on the real issues and use the tax system to complement our social and economic needs the deficit problem will take care of itself.

The deficit is a tool not an objective. If used properly we can accomplish significant goals. Improper use would be destructive.

**TESTIMONY ON JOB DEVELOPMENT
AND THE ECONOMIC FUTURE OF THE
SOUTHERN TIER**

Presented by:

**Donald A. Dellow
President, Broome Community College
July 9, 1994**

Congressman Kanjorski and members of the House of Representatives: Thank you for coming to Binghamton to solicit our views on the economic future of the Southern Tier. My name is Donald A. Dellow. I am president of Broome Community College, an institution that has played a major role in the preparation of the local work force for nearly 50 years.

I am sure that you have already reviewed a copy of the final report of a study of this area that was completed under a contract from the New York State Department of Economic Development (Economic Adjustment Strategy for the Southern Tier Region of New York State). The study reviewed extensively the strengths and weaknesses of our area and made some preliminary recommendations on how to revitalize our economy. Others at this hearing will assuredly review those recommendations and the subsequent actions that have been taken to respond to some of our problems. I will not go into these areas. Instead, I would like to offer recommendations that I believe will assist community colleges in providing the services necessary to train young people and continually retrain adults.

Each year for the last several years, the non-traditional students (those who have not just graduated from high school) at our community colleges have been increasing in numbers. This group consisted of individuals who had been terminated from their jobs, women and men who had been on welfare for a number of years and wanted to improve their lives, part-time students who were employees in local companies trying to become eligible for promotions and, in some cases, professionals who were preparing for a new profession. All evidence indicates that for most community colleges in the Northeast, this trend will show a drastic reversal this fall. Already, at Broome Community College applications from this group are down from approximately 950 last year to less than 650 this year, or a 35% decline in enrollment. Why?

A number of federal initiatives have impacted this particular group of individuals. In spite of all our concern for creating new jobs, we have stripped away the systems that have been bringing people back to re-train. The first of these barriers is the lack of funding for re-training under the Trade Readjustment Act. Individuals displaced from their jobs because of international competition were eligible for

unemployment benefits and two years of additional college training. Each year Broome Community College had between 100 and 200 individuals attending who were preparing for new careers. Now there are none of these individuals. Apparently the language or the funding has not been resolved, so potentially thousands of individuals in our area do not have the financial support that once existed for retraining. This was a highly successful program for the nation and the individuals themselves. Can we get this program back on line?

A second barrier to the returning adult students has been the revision of the tax law concerning the tax deduction status of expenses employers made for employees who took courses at the community college. Dozens of employers used to reimburse employees for improving their knowledge and skills. Now, many fewer employers can afford to continue this incentive for their employees without the tax deduction. And, the number of part-time students has dropped precipitously. Do we believe in a world class work force or not? If so, I would recommend we readdress this issue in the tax law.

Another thing that has impacted the return of adults to

community colleges is the recent and pervasive trend to emphasize "jobs first." At both the state and federal levels there seem to be less interest in funding longer term (up to two years) training activities. Do we really think that getting more people into entry level jobs is going to make this country a stronger competitor? Do we think we can sell enough hamburgers and french fries to strengthen the dollar against the German mark and the Japanese yen? I thought we wanted to build a world class work force that could design and build quality products for the world market.

I would ask that you encourage those initiatives in Congress, such as the school-to-work transition bill, that give support to students, young and old, who are going into full, lengthier technical and professional educational programs. It may take a little longer to see the benefits, but the better skilled and competent work force that should result will ensure our future competitiveness.

In summary, I would ask that you review the impact of the Trade Readjustment Act and the tax law regarding deductibility of educational benefits paid by an employer. These two federal

legislative changes are directly impacting the number of non-traditional students attending Broome Community College. Also, I encourage you to support the funding of educational programs that allow for the development of world class technical or professional skills. Community colleges are providing the most cost effective quality educational programs, but without federal and state support, many individuals who have suffered from our weak economy will not be able to use our services.

Thank you for this opportunity to explain how several federal legislative barriers have affected community colleges in our region.

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TESTIMONY FOR
SUBCOMMITTEE ON ECONOMIC GROWTH
AND CREDIT FORMATION

HEARING ON
JOB DEVELOPMENT AND ECONOMIC FUTURE
OF SOUTHERN TIER

Che-Yu Li
Director, Electronic Packaging Program
Cornell University
Ithaca, New York 14853

Chairman Kanjorski and Members of the Subcommittee:

My name is Che-Yu Li. I am a professor and chairman of the Department of Materials Science and Engineering at Cornell University. For the past 15 years my own research has been increasingly concentrated in the field of electronic packaging. Since 1985 Cornell has furthermore been building an extensive interdisciplinary research program in this field, for which I am the director.

Electronic packaging provides the physical infrastructure required to assemble and integrate microelectronic systems. As such it touches upon any manufactured product that contains microelectronic controls and sensors, and packages represent a vital part of computer and telecommunications products. Specifically, the package supplies the electrical power to run semiconductor chips, removes the heat generated, and provides interconnects for information input and output. Currently, this is a limiting factor for cost, performance, and reliability of many microelectronic systems. It should also be recognized that the materials and manufacturing technologies used in electronic packaging apply equally well to a range of other high technology products, notably in the medical sector.

The electronic packaging program at Cornell is currently supported by major US corporations, US industry consortia, the National Science Foundation and the State of New York. The mission of the program is to

perform precompetitive research in order to enhance the competitiveness of US industry. Since electronic packaging related businesses already have a strong presence in the southern tier, we are furthermore exploring additional ways of contributing to the startup of new businesses, as well as to the growth of existing ones in the field. For example, we have established an Advanced Electronic Packaging Facility which not only supports our own program but also offers a unique resource of equipment and services not commonly available to small and mid size manufacturers.

The economy of the Southern Tier, like that of many other regions in the US, is clearly influenced by both the defense downsizing and the transition to an information economy. The arrival of an era of information economy driven by computer, software, and telecommunication industries is now certain. Business and consumer spending on microelectronic products and related manufacturing equipment accounts for 38% of all economic growth since 1990, and this is just the hardware part of the information technology. For most Americans, the transition to the new economy will mean opportunities for jobs and prosperity but some will lose, or have lost, their jobs as companies reorganize their business and manufacturing operations to take advantage of the new developments. These displaced workers will add substantially to the pool already created by the defense downsizing.

A strategy for job development and economic growth in the Southern Tier is to invest in information technology, in order to maximize the opportunities brought by the information economy. We already have a strong base of information technology in the region, as represented by major corporations such as IBM, Xerox, Kodak, and Corning, all in leadership positions in their respective technologies, as well as a large number of small companies. Another part of the technological base is represented by three research universities, Cornell, Binghamton, and Alfred, located within easy driving distance from each other. These universities have made strong efforts to develop working relationships with local industry and among themselves. The infrastructure thus provided should permit the effective leverage of federal programs to enhance the startup of new businesses and the growth of existing ones in the region.

To further strengthen the infrastructure in electronic packaging, we have

recently formed the Southern Tier Network of Electronic Packaging Facilities. This Network includes facilities at Binghamton University, Cornell University and IBM-Endicott, offering a comprehensive collection of sophisticated equipment and technical expertise not readily available to a typical small or mid size business. The Network is aimed at providing services for design, fabrication, and testing of electronic packaging and materials to permit a more rapid development cycle and prototyping than would otherwise be possible for small businesses lacking the equipment and expertise.

The State of New York provides financial support to both Cornell and Binghamton facilities. Also, close working relations are being established between the Network and the NY State Technology Development Organizations (TDO's) and other state agencies. The primary function of the TDO's is to provide extension and technology transfer services to small manufacturers. The success of the Network will be ensured by the association with these TDO's and their success in industrial extension and outreach activities.

Federal programs such as the Technology Reinvestment Project, the Advanced Technology Program, and those of the Small Business Administration could be of great benefit to this region. Their support would permit a significant expansion and acceleration of a range of ongoing efforts currently supported by industry and the State of New York. We are therefore actively seeking the guidance of the respective federal agencies regarding participation in these programs.

**Job Development and the Economic Future
of the Southern Tier**

July 8, 1994

Frank C. Meyer
Vice President and Chief Financial Officer

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Job Development and the Economic Future of the Southern Tier

It is a pleasure to discuss the economic future of the Southern Tier with you today. And it is most encouraging to see that the concerns of the region's business community are being solicited by this subcommittee.

It is critical in today's business environment to have all elements of the community working to improve the quality and standard of life in the Southern Tier. To this end, I will describe where we at Loral Federal Systems-Owego find ourselves, and how...working together as a community...we can revitalize the Southern Tier.

Let me, first, address how we view the current economic condition of the Southern Tier. You will not be surprised that our situation is not very much different from that of other mid-size cities. Older industries are struggling to cope with increasing costs of doing business. Taxes are creeping up to offset losses in revenue. The economy is evolving to become service- rather than manufacturing- based.

Like some other areas, the Southern Tier has excellent academic resources and can boast a hard-working workforce dedicated to the prosperity and stability of their community.

Competing nationally, though, is difficult. Faced with rising unemployment, due to a drop in manufacturing jobs, we see hourly and weekly earnings that are the lowest in the state of New York and second lowest in the Northeast only to Johnstown, PA. In fact, the unemployment rate has risen dramatically in the last six years -- from 3.1% in 1988 to 7.3% in 1994 -- as non-agricultural jobs declined during that period by 11,400. By comparison, the number of jobs in the U.S. grew by 6.8%, the number statewide declined 4.5%, but in the Southern Tier the number declined by 9.3%.

Two significant factors have, from our perspective, coalesced to create this situation: Diminishing opportunities in the high-technology defense industry and the constantly increasing tax burden on businesses and individuals.

On the first point, the area was once considered rich in both high technology and high salary jobs. Associated with the birthplace of IBM and Link flight simulators, the region has over the past two decades become largely dependent on the health of the defense industry. As local companies invested in the research and development necessary to support their bids for advanced technology weapons systems, two conditions resulted. First, they attracted highly skilled and educated professionals who came and settled in this area. Second, they ensured that the educational resources of the area were adequate to support and challenge their own educational growth as well as that of their families. This highly skilled workforce supported the area's cultural activities as well as its economy.

On the second point of discussion, I draw on the experience of Loral Federal Systems-Owego in the defense electronics market. We have seen the precipitous end to a nearly half-century struggle against communism and aggression. This struggle was costly for the American people, but at the same time created a huge industry that was geared solely to support the nation's military needs. As the U.S. military downsizes its forces and seeks a more appropriate mission for the future, our industry which supported the military must also downsize and seek a more appropriate way to maintain its revenue and support its customer. One avenue which the military is using to deal with the downsizing is expanding the missions of existing platforms such as the Light Airborne Multi-Purpose System (LAMPS) helicopter.

At this time, I would like to personally thank Representative Hinchey for his direct involvement in supporting the remissioning and restoration of funding for the LAMPS helicopter program. The LAMPS program is one of the largest programs at Loral Federal Systems-Owego.

Since the late-1980s, the defense market has witnessed a significant decline in total size and number of new opportunities. With the end of the Cold War, the market in defense electronic systems in which Loral, Link, Martin Marietta and others operate is declining from \$39 billion per year in 1989 to less than \$26 billion per year by 1997 or roughly one-third in just eight years. Just to maintain marketshare requires an aggressive investment strategy to support the necessary research and development that will ensure viable products and solutions for a customer whose mission and spending habits have been altered dramatically. For example, the original plan for the B-2 Bomber was 132 aircraft which was reduced to 80 and now the program is slated to conclude with only 20 aircraft produced. The Senate has recently passed legislation to maintain the

industrial base for the B-2 stealth technologies for one more year to assure that businesses which own and produce critical technologies do not perish.

Various government partnerships have attempted to help defray the burden to the defense industry. For example, the Advanced Research Projects Agency's (ARPA) Technology Reinvestment Program (TRP) identified seven technologies of critical importance to the industrial base of the United States that would, if exploited, encourage defense conversion. These technologies were identified as those that defense contractors could compete to develop and thereby transition their own manufacturing capabilities and technical skills to develop jobs in non-defense related markets. This approach has demonstrated some potential. For example, we have been able to apply the principals of electronic warfare algorithms as a basis for developing algorithms used in address recognition for the U.S. Postal Service.

Also necessary for successful defense conversion is full support for defense acquisition reform. We support Secretary of Defense William Perry in his efforts to reduce dependence on 'mil-spec' parts and streamline the acquisition process to reduce the overhead associated with participating in the defense procurements.

Enacting acquisition reform is good for all parties: It reduces the cost of defense-related acquisitions in an ever shrinking defense budget: It enables defense industries to become competitive in the commercial marketplace by allowing them to purchase and use high quality commercial parts when appropriate.

Government should provide incentives for industry and academia to respond to natural market forces and then provide the stimulation to keep those partnerships viable. Efforts such as the University Industry Public Partnership for Economic Growth (UnIPEG), Partnership 2000, Integrated Electronics Engineering Center (IEEC), and individual, specific contract-related research and development projects with local universities must be nurtured and held accountable for producing tangible results. The results of these activities should then be promoted by the New York Congressional delegation as these initiatives compete for federal funding and viability in the marketplace.

Tax relief to individuals and businesses will make the Southern Tier a more attractive place for a highly skilled workforce. It will allow local industry to compete nationally. Tax relief packages that encourage existing companies to remain in the area and that provide incentive for others to relocate into the Southern Tier will ensure that those companies can reinvest for the future revitalization of the Southern Tier.

In conclusion, working together we can revitalize the Southern Tier by focusing on the areas I discussed. Congress must increase support to the defense industry by stimulating partnerships with industry which encourage defense conversion and support acquisition reform to enable cost-effective transfer of defense technologies into the commercial marketplace. State and local government must reduce the tax burden such that new businesses relocate to the area to capitalize on the highly skilled and educated workforce in the Southern Tier. And the community must continue to make the Southern Tier a desirable area for economic growth and development. Together we can revitalize the Southern Tier.

TESTIMONY:

July 8, 1994

**JOB DEVELOPMENT AND THE ECONOMIC FUTURE
OF THE SOUTHERN TIER**

FOR:

U. S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON ECONOMIC GROWTH AND CREDIT FORMATION
Committee on Banking, Finance and Urban Affairs

BY:

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OPERATION S.E.E.D.
SOCIO-ECONOMIC EMPOWERMENT THROUGH DEMOCRACY¹INTRODUCTION:

Two serious problems facing planners concerned with specific, indigent-community economic development are:

- (1) How to attract productive enterprises, and
- (2) Who to attract.

These problems are not mutually exclusive. Unfortunately, the latter is often ignored in the zeal to visibly address the former. By not focusing on the intersection of these domains, municipal development agencies increase the risk of attracting too many enterprises that consider only private costs and benefits; consequently, they do little or nothing to support the socio-economic development agenda of their host communities.

Consider, for example, a stratagem to increase minority participation by awarding state and local contracts. The work is completed, the contractor paid, and development policy is 'seen' to be served. But, are community development objectives truly achieved? Are incomes raised so that poverty rates fall? Do poor communities become more self reliant as a result of traditional development programs? Who is helped when poor people consume?

Seeking the answer to these questions and designing effective procedures that foster development while correcting inequities is at the heart of OPERATION S.E.E.D.

The essence of the problem - indigent population dependence. Planners must identify production and consumption dependency sources in order to determine which within-community import substitutes and/or export opportunities are least dependent on outside communities for purchases and most dependent for sales. In other words, an analysis of general dependency on non-target-population sources for production inputs, a leakage of income from the community, and markets, an income injection. We can then predict those economic activities that are most likely to allow significant levels of income

¹The development project, Socio-Economic Empowerment through Democracy, Operation S.-E.E.D., was conceptualized, named, and developed by Prof. Michael C. Monroe, Ph.D. The Westside Innercity Association of Syracuse, NY, Inc., is administering this project within its boundaries and utilizing the name implied by the acronym "S.E.E.D." under special license from and in cooperation with Dr. Monroe.

to be retained by firms and workers within target communities and, therefore, available for development.

Accordingly, this project responds to the concerns expressed above and to the singular needs of communities like Binghamton, Elmira and Corning, in the Southern Tier. Because of the time constraint, I am limiting my remarks to Binghamton - specifically Census Tracts 5 and 10 through 13. In each of these tracts, more than 38% of households are below the poverty line. Binghamton, NY, is multi-racial but predominately white, with a high percentage of the city's residents in the low- to moderate-income category; in 1990, almost 20% existed below the poverty line. Within the five tracts mentioned above neighborhood unemployment is relatively high and participation in the labor force is relatively low, especially for African-American residents.

As expected, African American, Asian, and Hispanic citizens are generally worse off in all categories of distress. However as stated above, Binghamton has a low minority population. There are just over 53,000 residents within the central 18 census tracts. And: White, 92%; African American, 5%; Native American, .3%; Asian, 2.2%; and other races, .6%. However, just over 18% of whites are poor and over 42% of blacks. Furthermore, in some of the most distressed tracts there are many working poor earning just 25% more than the poverty line. In fact, in Tract 11, over 70 percent of the residents exist at incomes below 125% of the poverty line. Finally, more than 25% of the poor are children under 18.

For more on this subject and the data see the printout of the Binghamton OPERATION SEED slide presentation in your packet, and/or contact the author.

What can be done? Business as usual has not and will not work. In the 1990's and beyond, any realistic development program must not only establish economically viable enterprises and jobs but must simultaneously: provide training while earning income; provide affordable daycare; provide affordable health care, including substance abuse rehabilitation; address affordable housing needs, especially home ownership; provide a mechanism to remove people permanently from welfare; provide a mechanism to become financially self sufficient, i.e., not dependent on public monies. And, this program must EMPOWER the citizens of the communities it serves.

OPERATION SEED is designed to address the problems outlined above. This project has been in development since 1987. Now, it is under license to the Westside Innercity Association (WIA) of Syracuse, NY. Additionally, interest has been expressed by the City of Syracuse, private citizens, members of the business community, and the Assembly person who represents the district containing WIA. (See enclosed S.E.E.D. plan for WIA, S.E.E.D. slide notes, news articles and letters.) Now, consider OPERATION SEED.

OVERVIEW OF THE PROJECT:

THE PRIMARY OBJECTIVE OF OPERATION SEED IS TO CREATE SUSTAINABLE EMPLOYMENT WITH EQUITABLE INCOME LEVELS FOR SIZABLE NUMBERS OF TARGETED CITIZENS.

Given the lessons of indigent development history - both minority and white, this objective requires the establishment of integrated, community based enterprises producing goods and services for 'domestic' and 'export' demand, where domestic and export refer to intra- and extra-target-community markets, respectively. Additionally, for such ventures to initially survive, break even, and ultimately succeed some type of long-term supporting mechanism, a socio-economic infrastructure, must be established. This infrastructure must address economic and social needs, the latter including day-care facilities and substance-abuse treatment-to-job oriented halfway houses. And, it must be controlled by and readily accessible to community residents.

THUS, THE OFFERING BY S.E.E.D. IS A FORMULATION OF BOTH TACTICAL, ENTERPRISE CREATION, AND STRATEGIC, ENTERPRISE CREATION AND MAINTENANCE, RECOMMENDATIONS THAT ARE DESIGNED TO OPERATE IN CONCERT.

To sustain such a structure there must be some unifying force, one capable of creating and maintaining simultaneous short- and long-term development operations in a climate of justice and equity - one that can be accepted with confidence, especially by the indigent. The primary recommendations are centered around the methodology for establishing specially organized employee-owned firms and supporting organizations within the areas of greatest need.

TO ACHIEVE THIS REQUIRES ADDRESSING THE DUAL PROBLEMS OF:

- (1) PREPARING INDIGENT WORKERS FOR THE RIGORS OF RESPONSIBLE ENTERPRISE OWNERSHIP; AND,
- (2) ADVANCING THE IMMEDIATE OPPORTUNITY TO EARN AN INCOME GREATER THAN THAT AVAILABLE THROUGH PUBLIC MAINTENANCE PROGRAMS OR THROUGH PARTICIPATION IN THE INFORMAL ECONOMY, E.G., CRIMINAL ACTIVITIES.

It has been recognized that most people in poor communities lack both the skills and confidence to own and operate medium- to high-employment generating activities. Therefore, a structure al-

lowing transition from worker-pawn to community-conscious, democratic self management (DSM) for firms has been designed.

THE CORNERSTONE OF THIS STRUCTURE WILL BE A FOR-PROFIT HOLDING AND NON-PROFIT DEVELOPMENT CORPORATION, TO BE LOCATED WITHIN SELECTED DEPRESSED AREAS WITHIN BINGHAMTON

The for profit corporation shall be called F.I.R.M.S., Inc., (Fundamental Incubation and Resource Management Services), and the non-profits will be SEED and the C.E.D. (Center for Economic Democracy, Inc.); F-C-, Inc..

OVER THREE TO FOUR YEARS, THIS ORGANIZATION IS TO ESTABLISH, NURTURE, AND DEVELOP A MAXIMUM OF 12 ENTERPRISES PER REPLICABLE INCUBATOR - EACH CAPABLE OF EMPLOYING, ON AVERAGE, 40-45 RESIDENTS OF THE TARGET AREA. IN ALL - WITHIN ANY SINGLE FACILITY - F.I.R.M.S., WILL HAVE THE CAPACITY TO CREATE ABOUT 500 JOBS.

Within the incubator, embryonic corporations are to be initially organized as proprietary firms; they are to be wholly owned subsidiaries of F-C, Inc. During a three- to four-year incubation period, employees will receive literacy and skill training. And, they will be taught the responsibilities of business ownership.

WHEN AN INCUBATED COMPANY DEMONSTRATES THAT IT COMPLIES WITH PRE-SET CRITERIA FOR RELOCATION WITHIN TARGETED NEIGHBORHOODS IT IS SOLD TO ITS EMPLOYEES THROUGH AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP).

In part, monies from the ESOP sale attract no tax liability if they are re-invested in new, zone-based enterprises by F-C, Inc. Additionally, with leveraged ESOP buy-outs tax advantages are also enjoyed by the new self-managed enterprises, the employee-owners, and the lending institution.

The afore-mentioned Strategy is proposed in three consecutive, interdependent phases. Phase I's function is the preliminary work required to launch the 'Strategy'; in toto, it should be completed within 18 weeks. Phase II is the fifteen-month period required to establish F-C, Inc., and to implement the business plans for the first three firms. Finally, during Phase III, years two through five, we expect to commence operations in firms four through 12.

Binghamton SOCIO-ECONOMIC DEVELOPMENT PROJECT - GOALS AND OBJECTIVES:

The primary objective of the Binghamton Operation S.E.E.D. development project is to initiate a pilot program within the target tracts. If successful, we aspire to assist in the establishment of this race- and region neutral model in targeted areas throughout the State of New York. As stated in the overview, ultimately, Operation SEED is expected to create sustainable employment with equitable income levels for sizable numbers of targeted citizens. After the identification of both "internal and external markets" Operation SEED will create business ventures that are responsive to those domains; this will be accomplished through the establishment of the integrated, community based enterprises referred to above.

In order to accomplish this goal, the S.E.E.D. Development Project has defined the following preliminary procedures:

(1) Operation SEED will perform an analysis of the Binghamton target to determine patterns of income and consumption by community residents.

(2) Initially, Operation SEED will identify up to 100 potential business enterprises which will respond to community-based consumer demand as reflected in patterns of income and consumption.

(3) Operation SEED will establish a facility to launch at least three business enterprises by the end of Phase II and three of these companies, one every four months, for each of the four years of Phase III. These ventures are designed to provide permanent jobs within the EDZ and, eventually, the target community, at-large.

In outline form, the project phases are:

PHASE: DU- RATION	OPERATION	C O S T
I: Four to five months	Identify human and non- human resources; identify production possibilities and market areas; iden- tify and apply for Phase II, Phase III financing; identify area resources and TA providers, etc.	\$45,000
II: Fifteen months	Organize F-C, Inc., within the EDZ; obtain financing, continuing procedures implemented in Phase I; begin procedures for obtaining Phase III financing; recruit per- sonnel for first three firms; begin training; implement F-C procedures; operations for firms 1 to 3 commence.	\$2.9m
III: Two to four years	Operations of F-C, Inc.; begin operations for firms 4 through 12; seek replacement for firms exiting the incubation facility. F-C becomes financially independent between years four and five.	\$1.8m, partially self- financed until four years ops completed. To be determined in Phase II.

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PREPARED BY:

July 8, 1994

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Westside Innercity Association
Presents
Empowerment Zone Presentation

Operation S.E.E.D

Socio-Economic Empowerment through Democracy

**a new concept in
Neighborhood Economic Development**

**Dr. Mike Monroe
and**

Ken Jackson

**Provide a Presentation of a model self-financing
Small Business Incubator**

**May 24, 1994, 2:00 p.m. - 3:15 p.m.
City Hall, COMMON COUNCIL CHAMBERS**



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OPERATION S.E.E.D.
SOCIO-ECONOMIC EMPOWERMENT THROUGH DEMOCRACY¹
PROPOSED BINGHAMTON DEVELOPMENT PROJECT

OVERVIEW:

THE PRIMARY OBJECTIVE OF OPERATION S.E.E.D. IS TO CREATE SUSTAINABLE EMPLOYMENT WITH EQUITABLE INCOME LEVELS FOR SIZABLE NUMBERS OF TARGETED CITIZENS.

Given the lessons of indigent development history - both minority and white, this objective requires the establishment of integrated, community based enterprises producing goods and services for 'domestic' and 'export' demand, where domestic and export refer to intra- and extra-target-community markets, respectively. Additionally, for such ventures to initially survive, break even, and ultimately succeed some type of long-term supporting mechanism, a socio-economic infrastructure, must be established. This infrastructure must address economic and social needs, the latter including day-care facilities and substance-abuse treatment-to-job oriented halfway houses. And, it must be controlled by and readily accessible to community residents.

THUS, THE OFFERING BY DEVELOPERS WITHIN BINGHAMTON, NY, IS A FORMULATION OF BOTH TACTICAL, ENTERPRISE CREATION, AND STRATEGIC, ENTERPRISE CREATION AND MAINTENANCE, RECOMMENDATIONS THAT ARE DESIGNED TO OPERATE IN CONCERT.

To sustain such a structure there must be some unifying force, one capable of creating and maintaining simultaneous short- and long-term development operations in a climate of justice and equity

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- one that can be accepted with confidence, especially by the indigent. The primary recommendations are centered around the methodology for establishing specially organized employee-owned firms and supporting organizations within the areas of greatest need.

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It has been recognized that most people in poor communities lack both the skills and confidence to own and operate medium- to high-employment generating activities. Therefore, a structure allowing transition from worker-pawn to community-conscious, democratic self management (DSM) for firms has been designed.

THE CORNERSTONE OF THIS STRUCTURE WILL BE A FOR-PROFIT HOLDING AND DEVELOPMENT CORPORATION, TO BE LOCATED WITHIN THE BINGHAMTON ECONOMIC DEVELOPMENT ZONE (EDZ).

The corporation shall be called F.I.R.M.S.-C.E.D., Inc., [(Fundamental Incubation and Resource Management Services)-(Center for Economic Democracy, Inc.)] or F-C, Inc.

OVER THREE TO FIVE YEARS, THIS ORGANIZATION IS TO ESTABLISH, NURTURE, AND DEVELOP A MAXIMUM OF 12 ENTERPRISES PER REPLICABLE INCUBATOR - EACH CAPABLE OF EMPLOYING, ON AVERAGE, 40-45 RESIDENTS OF THE EDZ TARGET AREA. IN ALL - WITHIN ANY SINGLE FACILITY - F-C, INC., WILL HAVE THE CAPACITY TO CREATE ABOUT 500 JOBS.

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BINGHAMTON SOCIO-ECONOMIC DEVELOPMENT PROJECT - GOALS AND OBJECTIVES:

The primary objective of the Operation S.E.E.D. development project is to initiate a program within the Binghamton Economic Development Zone (EDZ). If successful, we aspire to assist in the establishment of this race- and region neutral model in targeted areas throughout the State of New York. As stated in the overview, ultimately, Operation SEED is expected to create sustainable employment with equitable income levels for sizable numbers of targeted citizens. After the identification of both "internal and external markets" Operation SEED will create business ventures that are responsive to those domains; this will be accomplished through the establishment of the integrated, community based enterprises referred to above.

In order to accomplish this goal, the development project has defined the following preliminary procedures:

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In outline form, the project phases are:

PHASE: DURATION	OPERATION	COST
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II: Fif- teen months	Organize F-C, Inc., within the EDZ; obtain financing, continuing procedures implemented in Phase I; begin procedures for obtaining Phase III financing; recruit personnel for first three firms; begin training; implement F-C procedures; operations for firms 1 to 3 commence.	\$2.9m
III: Two to four years	Operations of F-C, Inc.; begin operations for firms 4 through 12; seek replacement for firms exiting the incubation facility. F-C becomes financially independent between years four and five.	\$1.8m, partially self-financed until four years ops com- pleted.

NEED FOR THE PROJECT:

Two serious problems facing planners concerned with specific, indigent-community economic development are:

- (1) How to attract productive enterprises, and
- (2) Who to attract.

These problems are not mutually exclusive. Unfortunately, the latter is often ignored in the zeal to visibly address the former. By not focusing on the intersection of these domains, municipal development agencies increase the risk of attracting too many enterprises that consider only private costs and benefits; consequently, they do little or nothing to support the socio-economic development agenda of their host communities.

Consider, for example, a stratagem to increase minority participation by awarding state and local contracts. The work is completed, the contractor paid, and development policy is 'seen' to be served. But, are community development objectives truly achieved? Are incomes raised so that poverty rates fall? Do poor communities become more self reliant as a result of traditional development programs? Who is helped when poor people consume?

Seeking the answer to these questions and designing effective procedures that foster development while correcting inequities is at the heart of this research and implementation proposal.

The essence of the problem - indigent population dependence. We must identify production and consumption dependency sources in order to determine which within-community import substitutes and/ or export opportunities are least dependent on outside communities for purchases and most dependent for sales. In other words, an analysis of general dependency on non-target population sources for production inputs, a leakage of income from the community, and markets, an income injection. We can then predict those economic activities that are most likely to allow significant levels of income to be retained by firms and workers within target communities and, therefore, available for development.

Accordingly, this project responds to the concerns expressed above and to the singular needs of Binghamton, specifically Census Tracts 5 and 10 through 13, as well as designated areas in the Villages of Endicott and Johnson City and the Town of Union. In the Binghamton Tracts 18% of White and 42% of Black households are below the poverty line. Binghamton, NY, is multi-racial, with a high percentage of the city's residents in the low- to moderate-income category; in 1990, almost 20% existed below the poverty line. Within

the Binghamton distressed neighborhoods unemployment is high and participation in the labor force is relatively low.

Initially, as part of Phase I data collection and analysis, Operation Seed will commission an EDZ Commercial Market Survey (EDZCMS). This study is expected to yield an overview of selected economic activity and problems within municipal Binghamton. Staff, will examine all major commercial streets in the city, identifying business nodes, and, in consultation with the Zone Administrator, they shall select several prototype nodes for in-depth analysis. Hopefully, at least two of the prototype nodes will be either within or similar to the Binghamton EDZ, i.e., similar in demographics, socioeconomic status, and geographic location. Thus, the findings and recommendations of the EDZCMS are expected to provide further documentation of the economic and commercial needs of the Binghamton community.

Expected key obstacles facing this community include the poor physical condition of buildings, a high vacancy rate for commercial structures, business tenants with weak managerial skills, under-capitalization, lack of cooperation between merchants, and a poor mix of businesses in relation to the needs of the community. A critical problem is the declining household base and the loss of more affluent households to outlying districts. Because of the perception of shoppers and business owners of crime and the lack of security prevalent in similar urban locales, we expect to discover a quantifiable negative social climate.

The EDZCMS shall provide some strategy recommendations in response to identified problems. The strategy focuses on: the development of entrepreneurial enterprise (see descriptions above and below), including the provision of technical assistance, merchant networking and organization; market analysis and improving the mix of goods and services demanded by the community; the rehabilitation of commercial space; and, the identification of investor financing. In addition, the strategy involves the stabilization and growth of households, through housing rehabilitation and new housing development, and the improvement of "Socio-economic Environmental Quality (SEQ)". *Inter alia*, at a minimum acceptable standard, SEQ will allow inhabitants to produce the equivalent of their physical demands, enjoy leisure, and nurture children. Finally, the EDZCMS will recommend special operational procedures to implement strategy recommendations.

PROJECT STAFF:

It is expected that SEED will be administered by a nonprofit corporation that is devoted to community development work in materi-

ally deprived communities in the aforementioned neighborhoods within Binghamton and Broome County. The staff and members of this Community Development Agency (CDA) should represent a group of highly committed individuals, and it should be governed by a volunteer board that reflects the demographic characteristics of the City of Binghamton, et. al.

The Operation Seed Project Director, would be the executive director of the administrating agency or their designee. This person will be instrumental in the promotion of Operation S.E.E.D in Binghamton.

The Economic Development Specialist (EDS) for Operation Seed will be hired through a statewide search. Qualifications will include at least 3 years of experience in community organizing and economic development, with a baccalaureate degree in community organization or economics preferred.

The primary technical assistance provider for economic and socio-economic development is Michael Monroe, Ph.D., an economist; he will serve as Director of Development/Senior Development Specialist for Operation SEED. Dr. Monroe, an economics professor at Ithaca College, is a Senior Fellow in the Program on Participation, Department of Economics, Cornell University. He has extensive experience in business development and management, including the design of economic models for "advancement" in impoverished neighborhoods.

PROGRAM ELEMENTS:

To identify those target-community economic activities that will allow significant levels of income to be retained by firms and workers, staff will investigate dependence of target-population firms' output on the supply of commodity inputs from other groups. In part, we intend to examine expenditure leakages from one group (target population) to another (non-target population) in the course of production. Then, utilizing specially designed procedures, we shall investigate the effects of dependence - by target-population firms on non-target population sources - for markets and for inputs to production.²

²Concurrently, project staff will employ a specially constructed model to identify the distribution of legal and illegal income from consumption by participants in the formal and informal sectors, the latter referring to consumption from legal and illegal income transfers. Applying this to problems of the impoverished, the analysis is an attempt to both quantitatively and qualitatively determine the economic effect on, for example, middle-class white incomes of indigent African-American consumption expenditure, and vice-versa.

The Binghamton Development Project will provide a mechanism for the organization of economic development activity within the Binghamton EDZ. Analytical information- and data-utilizing procedures will depend, critically, upon a detailed microeconomic analysis of the Zone community; in part, this includes the EDZ catchment area, i.e., Broome County. In some respects, this analysis will be similar to the type to be reported in the EDZCMS. However, since EDZCMS is a subset of the micro study, the community microeconomic analysis will go far beyond the EDZCMS investigation. Thus, Operation SEED will examine, recommend and implement programs designed to foster the revitalization of commercial enterprise in the community, the development of EDZ-based ownership, and EDZ and indigent community capital formation and retention, the latter to support expanded economic development.

In more detail, The Binghamton Development Project will include several key elements, beginning with fund raising. During project year 1 the fund-raising objective is to secure \$3m in funds from diverse sources, including U.S. Government agencies, the major beneficiaries, i.e., the State of New York, Broome County, and the City of Binghamton - as well as EDZ businesses and organizations. In consultation with the EDZ Administrator and Professor Monroe, the CDA will have lead responsibility for fund raising. They will utilize established relationships and networks to identify potential donors.

Operation SEED will require a data base for the EDZ microeconomic analysis and beyond. Sources for this data base will include 1990 Census data, government population survey data, and information collected through in-house surveys, as outlined below. The creation and maintenance of this data base will be the responsibility of Dr. Monroe. The data base is expected to include components from the EDZ as well as selected commercial surveys.

Operation SEED will conduct a survey of EDZ residents to determine sources of income and patterns of consumption, including the types of goods and services purchased, the source of those goods and services and consumer satisfaction with EDZ businesses. The survey instrument and sampling frame will be constructed by Dr. Monroe and the Binghamton staff Economic Development Specialist (to be named).

Additionally, Operation SEED will conduct a survey of EDZ business owners and the managers of branch businesses operating in the EDZ, such as branch banks and food stores. This survey will be used to determine sources of capital for EDZ business owners, sources and costs of goods and services provided by these businesses, and overall expenses and revenues. Further analysis will determine owner's perceptions of the business climate in the EDZ and attitudes toward economic development. The examination will assess the willingness and ability of business owners to participate in and contribute funding to the Binghamton Economic Development Coalition. (See below.) The survey analysis will also assist in determining sources of capi-

tal for a specially conceived holding company facility, as outlined below.

Operation SEED will work with the Zone Administrator and business owners in the EDZ to establish - the Binghamton Economic Development Coalition - a new organization for improved communication, information sharing, networking and support. This organization will meet informally, initially to formulate its mission, goals and objectives, including the formation of the holding company, F.I.R.-M.S.-C.E.D., Inc. (See Overview, above.) F.I.R.M.S. will have a board of directors comprised of EDZ officials, business owners, local representatives, and community residents. Additionally, the business incubator will provide some skill training for employees as well as on-going technical assistance to the new enterprises.

The Center (C.E.D.) will create the Binghamton Small Business Management Training and Leadership Education Program as its major training component. This program will be developed primarily by Dr. Monroe and the staff Economic Development Specialist, with consultation and assistance from Coalition members, local education facilities, and other small business technical assistance providers.

Using the data base, survey data, and discussions with coalition members, Dr. Monroe will perform the aforementioned microeconomic analysis; *inter alia*, he will employ techniques he has specially developed to identify business enterprises that satisfy the criteria for successful operation within indigent business communities, e.g., the Binghamton EDZ. "Success" will be measured not only in terms of capital formation but also in terms of capital retention, e.g., the ability of an enterprise to participate in an internal market for purchases within the EDZ.

Following the analysis, the first step in an organizing process that will achieve "success" is to establish mechanisms that eventually ensure ownership of business enterprises by EDZ residents. The second step is to develop cooperative or employee stock ownership forms of organization so that profits have wider distribution within the community. The third step involves identifying businesses which develop strong internal and external sales markets and which maximize input utilization - e.g., raw materials, labor - from within the EDZ. Optimally, this third step leads to a flow of dollars into the community and, consequently, development and retention of a stock of wealth.

The Binghamton EDZ Administrator as well as the CDA Project Director, the Operation SEED Director, The Director of Development, and project staff will cultivate and secure funding for initial enterprise capitalization. This critical step in the project will involve locating sources of capital from local, state, and federal programs, as well as from private sector sources.

Project staff will identify potential managers and employees for the business enterprises, using data from Dr. Monroe's analysis and the resources of the Zone and the Coalition. Primarily, individuals selected for employment will be EDZ catchment-area residents.

The imminent start up of two and the creation of one business enterprise will represent the culmination of the previous tasks. At the conclusion of this "first round" activity, project staff will evaluate the process and results. If deemed successful, the project will continue, leading to the founding of one new business enterprise in each third of each year.

BENEFIT TO BINGHAMTON EDZ RESIDENTS:

The Binghamton Development Project will benefit indigent and other residents of the Binghamton EDZ and its catchment area by developing a special "economic infrastructure".³ Additionally, the commercial enterprises fostered by this project will provide jobs for community residents.

But beyond employment, per se, the project will prepare community residents for owning the commercial enterprises that provide them employment, this through management training and education for leadership. The long term benefit for community residents will include capital formation through ownership of productive enterprises, some of whose markets extend to areas external to the target community.

These benefits are designed to ultimately break the ties of dependence on welfare and other institutions constituting the social "safety net".

Consider the following. Typically, it costs $\$X$ to maintain a family on welfare. If the head of household becomes employed and earns, on average, a minimum of $\$Y$ and pays $\$(t*Y)$ in taxes, then the first-round benefit to the taxpayer is the savings in welfare costs plus the increase in tax revenues to government, i.e. $B_1 = \$X + \$(t*Y)$. Net benefits are benefits minus costs. If costs per household are C , we require $B_1 - C > 0$.⁴ Furthermore, as new labor-force entrants consume and save, local domestic product grows and revenues for development are generated, respectively.

³The term economic infrastructure refers to: entrepreneurial development, management training, leadership education, market analysis, and financing.

⁴Operation Seed generates revenues such that net benefits are positive.

PROJECT MANAGEMENT PLAN - PHASE-I, 18-WEEK RESEARCH SUMMARY:**A. HUMAN RESOURCE DETERMINATION:**

This procedure utilizes a special approach to identify the numbers and location of employed and unemployed people in the specific neighborhood of greatest need and the target area, at large. The procedure will classify people possessing skills in five major occupation categories: (a) Menial, (b) Blue Collar, (c) Craft, (d) White Collar, and (e) Professional. Additionally, methods have been devised to estimate sources of income for unemployed persons within the above classifications. Income categories are: (i) No income (dependent), (ii) Institutionalized, (iii) Welfare, (iv) Crime, and (v) Crime and welfare.

B. PRODUCTION OPPORTUNITIES IDENTIFICATION:

Here, the purpose is to determine which products, when produced and marketed, will best maintain income and therefore wealth within the indigent community. This is accomplished by (a) examining several indicators in the commodity industry, product class, and individual product categories and (b) by analyzing this data with a special procedure; this procedure is designed to identify a set of commodities whose production is most likely to assist the development process - e.g., by maintaining community income and asset integrity. Thus, income and wealth can be recycled into local economic and social development programs.

C. MARKET SURVEYS:

These surveys identify the structure of supply and demand to help determine what is feasible and viable for production within Binghamton. Additionally, studies will be undertaken to determine which products are going to continue to be demanded by residents as incomes in poor communities increase.

D. RESOURCE IDENTIFICATION:

From Parts 'B' and 'C' - 100 viable "best-bet" firms are identified. Then, capital requirements, labor requirements, other input requirements and technology for these firms are examined. Given all of the above, including the human resources from Part 'A', the 30 most-likely-to-succeed firms are chosen.

E. COMMUNITY LIAISON AND INCUBATION-FACILITY DEVELOPMENT:

During the execution of Parts 'A' through 'D', above, interested community residents and leaders will be identified approached, recruited, enlisted, advised and consulted for the following activities: (a) Developing an EDZ site for the incubation facility; (b) Identifying and enlisting training and other technical providers; (c) Identifying and approaching funding sources, public and private; (d) Examining costs of poverty and welfare to identify costs per job; (e) Creating the incubator business plans; and (f) Finalizing operational budgets.

For Phase II and part of Phase III it is anticipated that financial capital will be forthcoming from those private, State, and local government sources that normally fund viable business enterprises. And: During Phase III F-C, Inc., should become self sufficient, i.e., completely supported by profits from the incubated, subsidiary companies.

OVERVIEW OF PROJECT TASKS:

The S.E.E.D Development Project will encompass the following tasks:

- (1) Fund raising
- (2) Development of economic analysis data base
- (3) EDZ income and spending survey
- (4) EDZ business owners and commercial activity survey
- (5) Organization of the Economic Development Coalition and formation of the business center, i.e., the Operation Seed Incubator: (F.I.R.M.S.)
- (6) Organization of Operation Seed's Center for Economic Democracy (C.E.D.) and its major program, the Small Business Management Training and Leadership Education Program
- (7) Identification of up to 30 high-profile-for-success business enterprises suitable for location within the EDZ, and selection of the first three business enterprises for start-up
- (8) Secure funds for initial capitalization

- (9) Identification, selection and training of business enterprise managers and employees
- (10) Initiation of one business enterprise, two, three
- (11) Evaluation of "first round" process and results
- (12) Repeat tasks (7) through (11) in each subsequent year of the project.

DETAILED DESCRIPTION OF TASKS:

(1) Fund raising. Personnel will, each, devote 10% of full-time effort (FTE). Each organization will provide the respective salaries as an in-kind contribution. This assignment will require up to 6 months to complete.

(2) Development of the Economic Data Base. This will be the responsibility of Michael C. Monroe, Ph.D., He will devote 100% of FTE to this task for three months of the first year and 20% of FTE for the remaining eight months; the annual equivalent is 40% of FTE.⁵ The initial development of the data base will require just over four months(18-20 weeks), with on-going maintenance throughout the project.

(3) EDZ income and spending survey. The survey instrument and sampling frame will be constructed by Dr. Monroe and the Binghamton Staff Economic Development Specialist (to be named). The Economic Development Specialist (EDS) will devote 100% of FTE to the project, and EDS and other staff salaries will be paid in full by Operation SEED. The EDS will supervise the survey interviews. This task will be completed within the 18-weeks of Phase I.

(4) EDZ business owners and commercial activity survey. Dr. Monroe and the EDS will design the survey and sampling frame; the EDS will administer the survey. This task will require 18 weeks to complete.

(5) Organization of the Economic Development Coalition and formation of the business incubator, F.I.R.M.S., Inc. The staff EDS will have responsibility for organizing the Coalition. This task will require 6-8 months for completion.

⁵Operation SEED will pay Dr. Monroe's remuneration and expenses. Remuneration is based on the Ithaca College faculty salary scale. Presently, the college is paying 60% of Professor Monroe's full time income.

(6) Organization of C.E.D. and the CDA Small Business Management Training and Leadership Education Program (MTLED). The program will be developed primarily by Dr. Monroe and the EDS. This task will require 4-6 months to complete.

(7) From a low-dependency data bank of 100: Identification of up to 30 "most-likely-to-succeed" business enterprises suitable for EDZ operation and selection of three of these for start-up. Dr. Monroe will perform the microeconomic analysis. Selection will result from discussion with project staff and Coalition members. The microeconomic analysis and selection of the business enterprises will require 1 month to complete.

(8) Secure funds for initial enterprise capitalization. The EDS will work on securing funding for enterprise capitalization. This task requires 6 months for completion.

(9) Identification, selection, and training of business enterprise managers and employees. The EDS will have the responsibility for identifying potential managers and employees of the business enterprises. The selection and training will require 6 months to complete.

(10) Initiation of three business enterprises. All project staff, Coalition members, and F.I.R.M.S. board will participate in this task. The task will require 4 months to complete.

(11) Evaluation of "first round" procedures and results. Dr. Monroe, the Operation Seed Project Director, and the EDS will design and implement an evaluation system. The evaluation will be semi-annual.

(12) Phase III. Repeat tasks (7) through (11) in each subsequent year of the project. New business enterprises will require approximately 9-12 months for implementation.

SCHEDULE OF PROJECT TASKS:

Task	Start Date	Completion Date
1. Fund raising	Month 1	Month 6
2. Data Base	Month 1	Month 5
3. Consumer Survey	Month 2	Month 6
4. Business Survey	Month 2	Month 6
5. Coalition and F.I.R.M.S.	Month 3	Month 10

6. C.E.D. and MTLED	Month 5	Month 10
7. Enterprise Selection	Month 6	Month 7
8. Secure Funds	Month 4	Month 9.
9. Select, Train Staff	Month 9	Month 14
10. Start Businesses	Month 11	Month 14
11. Evaluation	Month 12	Month 12
12. Phase III	Month 14	Month 60

Please note: The author claims intellectual and proprietary rights to this and any other papers and materials presented to private and public organizations of Binghamton, NY, its associates, and other persons and/or organizations - prior to, including, and subsequent to the date of this document.

PREPARED BY:

July 5, 1994

Michael C. Monroe, Ph.D.
25 Hilton Rd.
Dryden, NY 13053

NOTES



PRESENTING ...

OPERATION S.E.E.D.

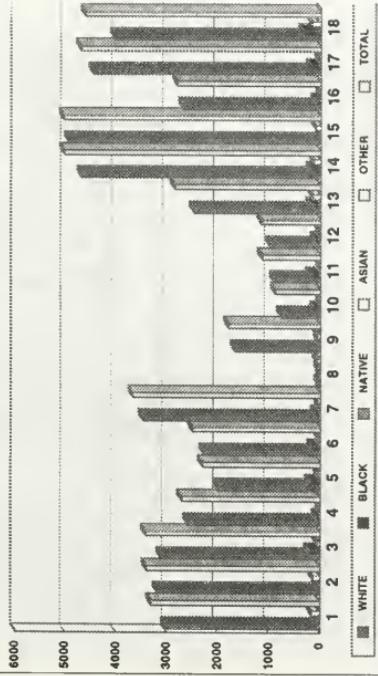


SOCIO-
ECONOMIC
EMPOWERMENT through
DEMOCRACY

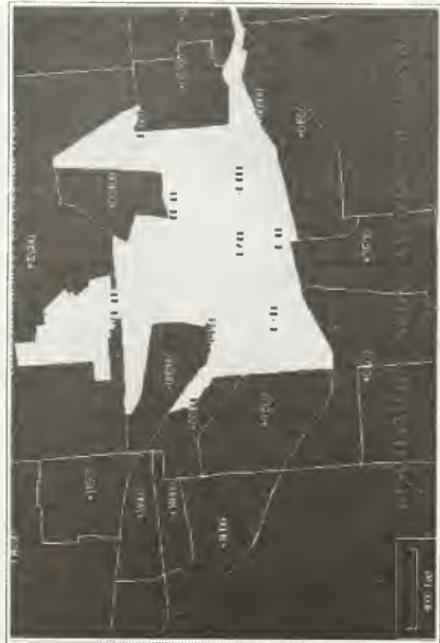


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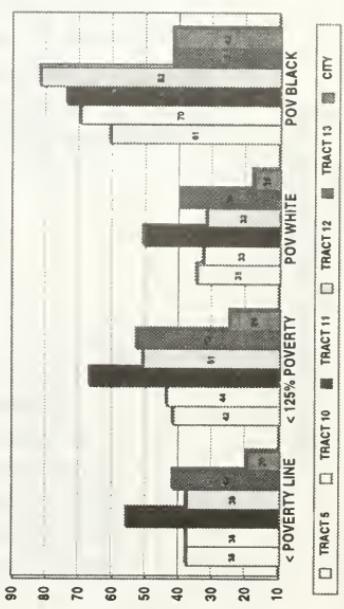
BINGHAMTON POPULATION
BY CENSUS TRACT AND RACE



NOTES

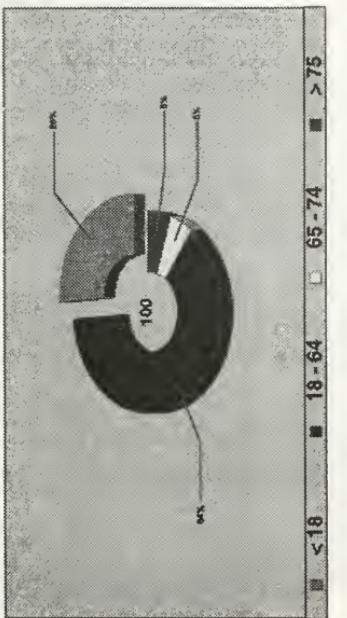


BINGHAMTON: HIGH POVERTY AREAS
1990

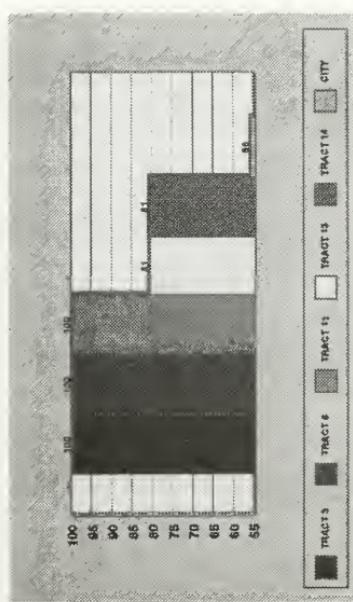


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BINGHAMTON: CHILDREN IN POVERTY

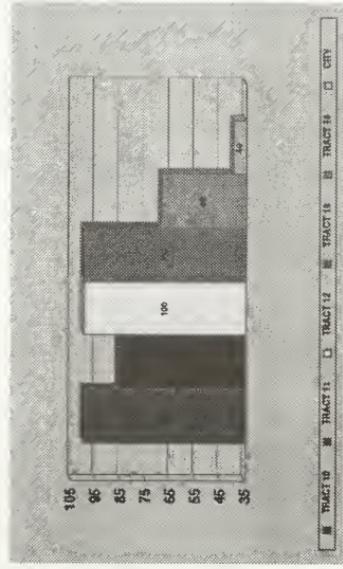


BINGHAMTON: % ASIAN POVERTY



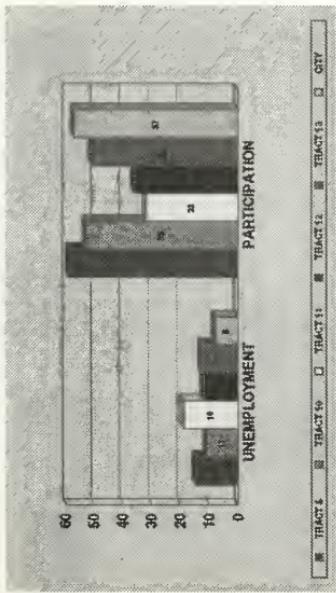
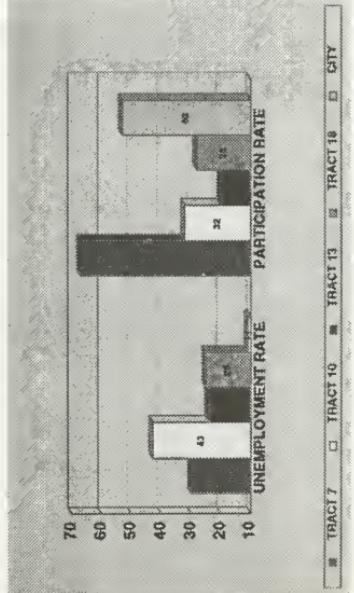
NOTES

BINGHAMTON: % HISPANIC POVERTY

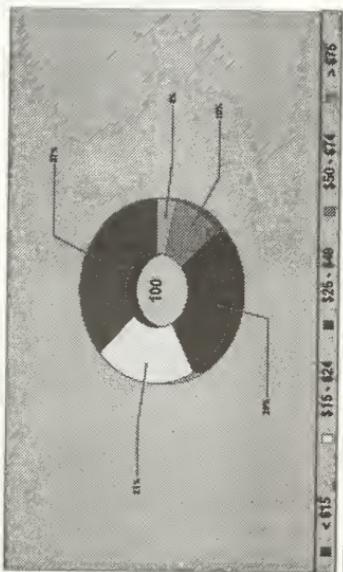
BINGHAMTON: EMPLOYMENT STATUS
BY CENSUS TRACT

CENSUS TRACT	MILITARY	CIVILIAN	BINGHAMTON TRACT OWNERSHIP AND POVERTY			EMPLOYMENT STATUS
			TRACT 10	TRACT 11	TRACT 12	
1	1,840	91	1,363	2,278	1,265	80.12%
2	1,447	205	1,485	2,095	1,044	51.94%
3	1,343	174	1,044	2,084	1,226	52.98%
4	1,327	102	687	2,101	7,456	62.38%
5	1,307	112	769	1,261	15,016	51.75%
6	1,292	108	845	9,187	5,276	87.04%
7	926	7	425	933	21,216	8.3%
8	816	87	525	1,413	7,358	62.85%
9	348	44	347	1,413	11,226	59.04%
10	239	13	818	6,027	18,553	31.84%
11	127	191	1,442	7,188	11,634	52.05%
12	2,432	174	1,870	4,579	8,276	86.85%
13	2,476	97	1,374	4,149	3,776	85.05%
14	1,394	47	810	2,931	8,265	62.05%
15	2,031	161	1,541	5,265	8,176	61.34%
16	11	196	1,374	4,261	8,155	60.04%
17	22,939	2,054	18,504	41,532	92,236	87.45%

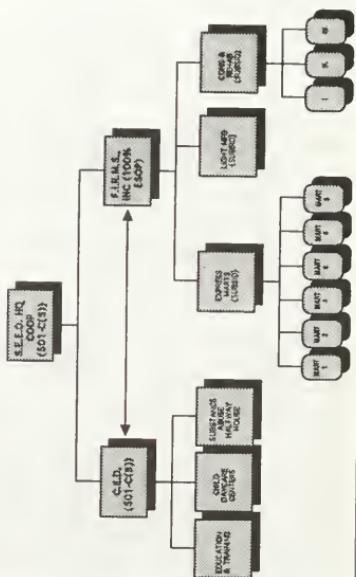
NOTES

BINGHAMTON: HIGH UNEMPLOYMENT
AREAS - 1990BINGHAMTON: FEMALES WITH
CHILDREN UNDER SIX

NOTES



OPERATION S.E.E.D. OVERVIEW



NOTES

ADVANTAGES OF EMPLOYEE STOCK OWNERSHIP PLANS (ESOPS)

EMPLOYEE OWNERS

Pay no taxes on shares until distributed

Can defer when distributed

1500

卷之三

Therefore, can arrange financing between 75% to 90% of
Have reduced tax liability

2001-2002

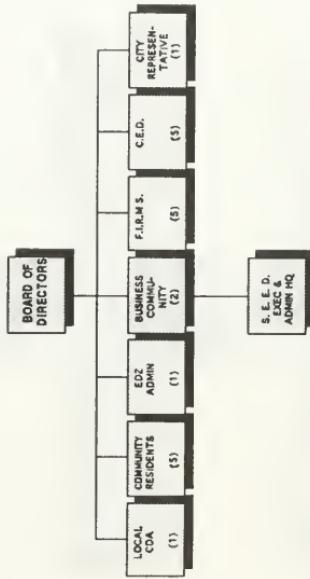
REVIEWS 205

Can deduct principal and interest from taxable income
Reduces pre-tax dollars required to pay principal by up to

卷之三

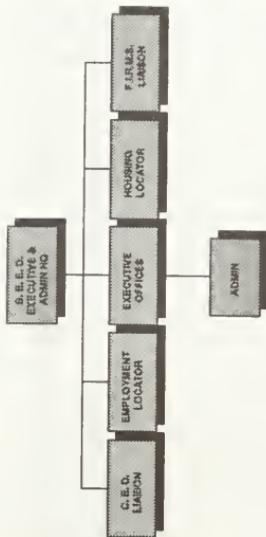
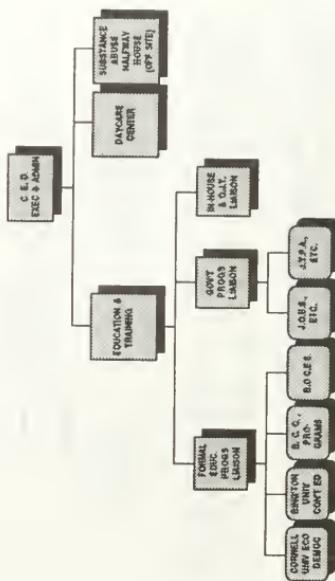
Have a tax-free source of income to invest in other infant

S. E. E. D. HQ

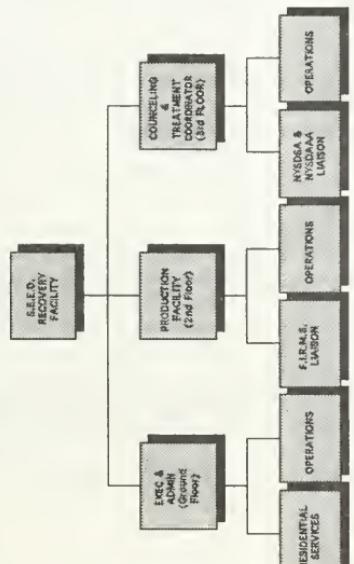


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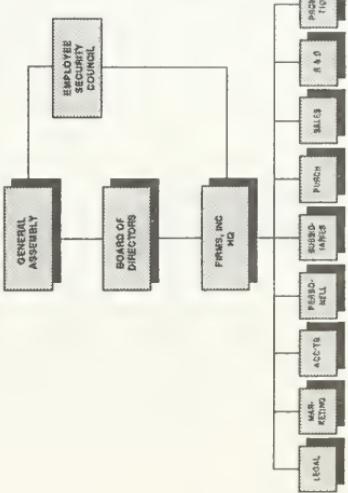
S.E. E. D. EXECUTIVE OFFICES

C. E. D.
CENTER FOR ECONOMIC DEMOCRACY

NOTES

SUBSTANCE ABUSE HALFWAY
HOUSE

F.I.R.M.S., INC. - FUNCTIONAL STRUCTURE



SEED COSTS - F.I.R.M.S.

F.I.R.M.S.	COSTS: 1-15	MONTHS	
INVESTMENTS			\$935,000
EXPRESS MARTS	\$480,000		480,000
WOOD PRODUCTS	250,000		250,000
CONSTRUCTION	120,000		120,000
MISC.	85,000		85,000
MORTGAGE, ETC.			68,235
MORTGAGE	53,235		53,235
EXPENSES	15,000		15,000
DEPT. BUDGETS			
NINE DEPARTMENTS			1,650,000
AT \$150,000 EACH	1,350,000		1,350,000
HQ	.300,000		.300,000
MISC. + INITIAL		\$280,000	\$280,000
3 MONTH SETUP			
		TOTAL	\$2,933,235

EXPRESS MARTS-1

TYPICAL STORE ('000)					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
INVESTMENT	(\$80.00)				
REVENUE	\$1,341.70	\$1,610.00	\$1,771.00	\$1,824.00	\$2,012.50
COST OF GOODS	\$959.30	\$1,151.13	\$1,266.24	\$1,304.14	\$1,438.91
GROSS MARGIN	\$382.40	\$458.87	\$504.76	\$519.86	\$573.59
STORE G & A	\$390.00	\$470.00	\$485.00	\$485.00	\$485.00
GROSS INC	(\$7.60)	(\$11.13)	\$19.76	\$34.86	\$88.59
TAX LIAB	\$0.00	\$0.00	\$0.39	\$13.25	\$33.66
NET INCOME	(\$7.60)	(\$11.13)	\$19.37	\$21.61	\$54.92
ALL STORES ('000)					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
INVESTMENT	(\$480.00)				
REVENUE	\$8,050.20	\$9,660.00	\$10,626.00	\$10,944.00	\$12,075.00
COST OF GOODS	\$5,755.80	\$6,906.79	\$7,597.47	\$7,824.83	\$8,633.49
GROSS MARGIN	\$2,294.40	\$2,753.21	\$3,028.53	\$3,119.17	\$3,441.51
STORE G & A	\$2,340.00	\$2,820.00	\$2,910.00	\$2,910.00	\$2,910.00
GROSS INC	(\$45.60)	(\$66.79)	\$118.53	\$209.17	\$531.51
TAX LIAB	\$0.00	\$0.00	\$2.33	\$79.48	\$201.98
NET INCOME	(\$45.60)	(\$66.79)	\$116.20	\$129.68	\$329.54
CUM NET INC	(\$45.60)	(\$112.39)	\$3.81	\$133.49	\$463.03
ALL STORES - NET PRESENT VALUE @ 7%					
YEAR 0-1	YEAR 1-2	YEAR 1-3	YEAR 1-4	YEAR 1-5	
(522,616.82)	(580,953.80)	(484,198.01)	(324,623.22)	54,336.07	
YEAR 1-6	YEAR 1-7	YEAR 1-8	YEAR 1-9	YEAR 1-10	
417,357.98	765,112.64	1,098,241.85	1,417,361.25	1,723,059.64	

EXPRESS MARTS-1

ESOP SALE TO EMPLOYEES FOR \$2,205,000 AFTER YEAR 5 - (SEE NOTES, PAGE 3)					
		MIRR			
		(YEARS)			
-41.10%	1-3	7.5% (B), 0% (L)			
-13.31%	1-4				
8.17%	1-5				
20.43%	1-10				
GROSS PROFITS		CUMULATIVE		IRR	(PV(B)-K)/K YEAR 1 TO N
				DISCOUNTED PV RATIO	
(\$480,000.00)	INVEST	(\$480,000.00)			
(\$45,600.00)	YEAR 1	(\$525,600.00)			-108.88%
(\$66,790.00)	YEAR 2	(\$592,390.00)			-121.03%
\$118,530.00	YEAR 3	(\$473,860.00)	-47.22%		-100.87%
\$209,170.00	YEAR 4	(\$264,690.00)	-16.36%		-67.63%
\$531,510.00	YEAR 5	\$266,820.00	9.32%		11.32%
\$544,798.00	YEAR 6	\$811,618.00	20.05%		86.95%
\$558,418.00	YEAR 7	\$1,370,036.00	25.92%		159.40%
\$572,378.00	YEAR 8	\$1,942,414.00	29.46%		228.80%
\$586,688.00	YEAR 9	\$2,529,102.00	31.72%		295.28%
\$601,355.00	YEAR 10	\$3,130,457.00	33.22%		358.97%
					6.14%
NPV @ 7.0%				PV	NPV 6-10
\$54,336.07	NPV 1-5				
\$1,723,059,639.63	NPV 1-10	YEAR 6		\$509,157	
\$2,204,094,517.21	NPV 5-10	YEAR 6-7		\$996,901	
		YEAR 6-8		\$1,464,132	
		YEAR 6-9		\$1,911,713	
		YEAR 6-10		\$2,340,471	\$135,471

EXPRESS MARTS-1

Note: ESOP sale reflects market value based on figures on Pages 1 and 2 of this document. Note that Mart margins are low, typical of this industry. Therefore, it is conservative to use Mart ratios as a benchmark for incubator self financing. For example. \$2,205,000 sales income to the incubator represents \$15,978 per employee. This implies a minimum \$3,243,587 from the three initial incubator startups. And, almost \$8,000,000 from a fully operating incubation facility, whose subsidiaries employ a total of about 500. This is in addition to profits from incubated companies and normal investment returns.

Note: MIRR. Modified Internal Rate of Return. Gives IRR if firm needs to borrow to finance deficits and can get a return if it invests profits. Here we assume borrow at 7.5% and reinvest only in self. So lend = 0%.

Note: GROSS PROFITS. Initial investment (\$480,000) + annual pretax profits for six Express Marts.

Note: CUMULATIVE pretax profits, given investment of \$480,000 in the beginning of Year 1. Note breakeven before the end of Year 5.

Note: IRR. Internal Rate of Return is the discount rate that sets a discounted stream of income exactly equal to the initial investment. If IRR is greater than the prevailing interest or inflation rate the project is profitable. Here the IRR for years 1-5 is 9.3%, greater than the 7% borrowing rate.

Note: $(PV(B) - K)/K$. Ratio of discounted income stream less investment as a proportion of investment. This reflects the initial investment of \$480,000. It is positive and healthy in year 5. This is when the incubator sells to employees, using the ESOP. Price: as reflected by the NPV for years 5 through 10 - \$2,205,000.

Note: DISCOUNTED PV RATIO. Same as column to left, except this is using investment of \$2.2m instead of \$480,000. Note that this is healthy after year 10, i.e., year five of employee ownership.

Note: NPV. Net Present Value, discounting at 7% and using the initial incubator investment in Express marts of \$480,000. Selling price to ESOP is from NPV for Years 6-10, given investment in Year 1.

Note: PV. Present Value shows the value in Year six (Year 1 of ESOP) of future income streams through Year 10 (Year 5 of ESOP). Discounted at 7%.

Note: NPV, 6 - 10. Shows discounted value (at 7%) of firm in year one of ESOP, after deducting \$2.2m cost to employees. If this number is greater than zero, the project is healthy. Here, NPV = \$135,471.



Bart Bush
Director

OFFICE OF DEVELOPMENT

Roy A. Bernardi, Mayor

July 26, 1994

Mike Monroe, PhD
Ithaca College
Economics Department
953 Danby Road
Ithaca, NY 14850

Dear Dr. Monroe,

I have been remiss in extending my thanks for all your work and effort on behalf of the people of Syracuse and especially our citizens on the west side of our city. Also, I would like to thank all your students who took time out to understand our problems and search for creative solutions.

We must continue to review ideas similar to yours which will empower local residents and give them the economic footing needed for future growth.

I look forward to working with you and Ken to determine the application of your program to our community.

Best regards,

Bart Bush, Director
Office of Development

cc: Vito Sciscioli, Community Development
Ken Jackson, Westside Innercity Association

WBB:sjl



THE ASSEMBLY
STATE OF NEW YORK
ALBANY

JOAN K. CHRISTENSEN
Assemblywoman 119th District
Onondaga County

CHAIR
Assembly Task Force on Women's
Issues

COMMITTEES
Aging, Housing
Labor, Local Government
Small Business

June 10, 1994

Hon. Aurelia Greene, Chair
Banking Committee
New York State Assembly
424 Legislative Office Building
Albany, NY 12248

Dear Aurelia:

Recently, I had the opportunity to receive a briefing and an overview on a very exciting local initiative which may be of interest to you as Chair of the Banking Committee. Operation S.E.E.D. (Socio-Economic Empowerment through Democracy) is the brainchild of Dr. Michael Monroe, a professor of Economics at Ithaca College.

Dr. Monroe has been working in conjunction with the Westside Innercity Association of Syracuse to develop a working model that would establish a small business incubator center in Syracuse that would serve as a cornerstone for a complete community redevelopment project.

Operation SEED's dual components would combine health, housing, education and economic development into one package; its primary objective is to create employment, income and neighborhood revitalization in an urban setting. At a time in which conventional models for rebuilding ghetto areas are not succeeding, I believe this comprehensive, well thought-out proposal has many merits, and we need to take a careful look at its potential.

The Westside Innercity Association and the City of Syracuse are presently looking for grants to implement the first phase of the project. I would like to invite you to visit Syracuse and meet personally with Professor Monroe and members of the Central New York Delegation to review the proposal and to discuss its merits. I am enclosing an overview of the project for your review.

Room 502, Legislative Office Building, Albany, New York 12248, (518) 455-5383, FAX (518) 455-5417
 4317 E Genesee Street, Room 103, Syracuse, New York 13214, (315) 449-9536, FAX (315) 449-0712

Hon. Aurelia Greene
Page 2

June 10, 1994

Again, I was very impressed by the presentation and its potential to create jobs, to rebuild lives, and to empower individuals. I look forward to sharing this information with the Assembly leadership.

Sincerely,


Joan K. Christensen
Member of Assembly

JKC/sld

cc: Hon. Michael Bragman, Majority Leader
 Dr. Michael Monroe
Mr. Kenneth Jackson, E.D., Westside Innercity Assoc.

Enclosure



THE ASSEMBLY
STATE OF NEW YORK
ALBANY

JOAN K. CHRISTENSEN
Assemblywoman 119th District
Onondaga County

CHAIR
Assembly Task Force on Women's
Issues

COMMITTEES
Aging, Housing
Labor, Local Government
Small Business

June 10, 1994

Honorable Herman D. Farrell, Jr., Chair
Ways and Means Committee
New York State Assembly
Room 923, Legislative Office Building
Albany, NY 12248

Dear Denny:

Recently, I had the opportunity to receive a briefing and an overview on a very exciting local initiative which may be of interest to you as Chair of the Assembly Ways and Means Committee. Operation S.E.E.D. (Socio-Economic Empowerment through Democracy) is the brainchild of Dr. Michael Monroe, a professor of Economics at Ithaca College.

Dr. Monroe has been working in conjunction with the Westside Innercity Association of Syracuse to develop a working model that would establish a small business incubator center in Syracuse that would serve as a cornerstone for a complete community redevelopment project.

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Hon. D. Herman Farrell
Page 2

June 10, 1994

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Sincerely,

Joan
Joan K. Christensen
Member of Assembly

JKC/sld

cc: Hon. Michael Bragman, Majority Leader
✓ Dr. Michael Monroe
Mr. Kenneth Jackson, E.D., Westside Innercity Assoc.

Enclosure

Economist envisions revitalized West Side

► Public, private money needed. City urged to take lead.

By Gary Gerew
Staff Writer

that would create businesses with-
in West Side neighborhoods. The
resulting jobs would provide em-
ployment for at least 203 people
initially.

"It's not a lot, but it's not a drop
in the bucket, either," said Monroe.
Monroe's proposal developed out
of a doctoral thesis he did in 1987
for his economics degree at Cornell
University. "It's grown some since
then," he said.

Underlying Monroe's plan is a
\$2.9 million outlay to pay salaries
and other costs to create a corpora-
tion that would oversee the devel-
opment of three basic businesses
over 18 months.

The corporation would be con-
trolled by its employees and over-
seen by a non-profit agency of
community representatives.

"In order to get anything going,
the people have to be involved,"
said Monroe.

It would help establish six gro-
cery markets in the area, employ-
ing 138 people. The markets would

be able to sell food at prices lower

than convenience stores now

found in those neighborhoods, said
Monroe.

A construction company would
be established to build homes in
the area, he said. That would hire
20 people and buy some of the
materials it needs from another
new company that would make
wood products for pre-fabricated
homes. The latter company would
employ about 45 people.

"These are not make-work jobs,"
said Monroe. "They are meant to
be competitive businesses."

Tuesday's presentation was or-
ganized by Ken Jackson, who ad-
vocated Monroe's proposal two
years ago when running for the
State Assembly.

Jackson now heads the Westside
Innercity Association, a promotion-
al group for the area's businesses.
Jackson said the success of Mon-
roe's plan would depend on the
city's willingness to pursue money
for it.

"It depends on the city's commit-
ment to improving a key part of

the city that has been historically

ignored," said Jackson.



STEPHEN D. CANNARELLI/STAR PHOTOGRAPHER

KEN JACKSON of the Westside
Innercity Association speaks on
economic development.

condemn all of Old City and throw
money at projects that failed such
as Pioneer Freezer, then we should
be able to do this."

an economist urged a renais-
sance for Syracuse's West Side
neighborhoods Tuesday. Including
creation of neighborhood markets
and light industry to hire those
now living on public assistance.

"Within the area (residential
blocks around West and Olisco
streets) only 34 percent of the pop-
ulation we surveyed rely on em-
ployment for income," said Mi-
chael Monroe, an economics

professor at Ithaca College.
"Within the area, you have one
census tract where 100 percent of
the children under 6 are living
below the poverty level. What
we're saying is that there is a mar-
ket for this."

Monroe's solution is a combina-
tion of public and private spending

SYRACUSE POST-STANDARD, May 25, 1994

West Side Business Plan Put Forward

■ The proposal to educate residents and create jobs has been five years in the making.

By LILLIAN ABBOTT PFOHL
The Post-Standard

A west-side community group wants to create a small-business incubator in Syracuse that would serve as a cornerstone for community development in the area.

Operation SEED — Socio-Economic Empowerment through Democracy — would combine health, housing, education and economic development in one package, said Ken Jackson, executive director of the Westside Inner City Association.

It's an idea Jackson and Mike Monroe, a professor of economics at Ithaca College, worked on for the last five years.

Monroe came up with the concept for SEED as his doctoral thesis while studying at Cornell University.

He and Jackson have worked since 1987 to refine the idea to suit the west side. They presented their ideas to city officials Tuesday.

With Syracuse applying for funds from two new federal programs, Jackson and Monroe are hoping this is a good time to get the approximately \$3 million needed to get SEED up and running.

Syracuse is looking for grants from the Empowerment Zone and Enterprise Community program, a new federal community development project. The program creates six urban empowerment zones that would get about \$100 million each in funding and 65 enterprise communities that would receive about \$3 million each in direct funding as well as preferential treatment for future funding.

SEED is made up of two components — one that deals with social issues, the other a business incubator.

The social side, Center for Economic Democracy, would provide education and training, day-care centers and a substance-abuse halfway house, Monroe said.

The idea behind the center is to provide businesses at the incubator with a skilled work force, Monroe said.

The incubator, to be called Firms, would support up to 12 businesses, Monroe said.

One of the first companies to be started would be Express Marts, a chain of six stores that would be bigger than corner convenience stores but smaller than grocery stores, Monroe said.

As each company becomes profitable, it would be sold to the employees in an employee-stock ownership deal, Monroe said.

Remarks of Victor Tennant, President
Broome County Federation of Labor, AFL-CIO
to Public Hearings held by U.S. House of Representatives
Committee on Banking,
Subcommittee on Economic Growth and Credit Formation
on *Job Development and the Economic Future of the Southern Tier*
City Council Chambers, City of Binghamton
Friday, July 8, 1994 1:00 p.m.

In General

In my remarks today I represent Edward J. Cleary, President of the New York State AFL-CIO. Organized labor welcomes the chance to participate in these public hearings. One of the biggest problems in economic development discussion is that all other interests: banks, real estate developers, organized business and other special interests are well-represented in these debates, but the voice of working people is barely heard at all.

In May 1993 the New York State AFL-CIO published *Toward a New Economic Strategy for New York State*. I have several copies to submit formally to the committee. It remains the most comprehensive and balanced labor vision of how the state economy should develop.

It outlined a 12-point labor program to rebuild New York:

1. New York's revitalization depends chiefly on the resurgence of the private sector.
2. Rebuild the port and the freight rail system.
3. Restore the value of a high school diploma.
4. Raise the cost to corporations of leaving New York.
5. Revive the construction industry and build affordable housing for working people first.
6. Make the state tax system more progressive and end the state fiscal crisis.
7. With new economic development principles, restructure economic planning agencies and development authorities.
8. Make the redevelopment of manufacturing industry a top state priority.
9. Economic development for all; the most disadvantaged come first.
10. Treat culture as an industry in New York.

11. Create a New York Bank for Jobs and Economic Development.
12. Strengthen labor rights in New York.

I do not have time here to develop all these proposals. I refer you to the document.

Learn from New York Economic History

Economic strategy matters. Government action -- at the federal and state level -- to nurture manufacturing is part of the solution, not -- as the trickle down advocates believe -- the main cause of the problem.

We ought to ponder the lessons, for example, of the link between transportation innovation and economic growth. New York rose to economic pre-eminence because, early in the 19th century, visionary state officials shrewdly chose to build an Erie Canal. As a result, an unremarkable town on the Eastern seaboard became a world metropolis. And much of upstate New York became an industrial powerhouse. The economic decline of New York is not inevitable. It is the result of an unwise, failed economic strategy. A new strategy can make the New York economy thrive again.

The Main Danger: A Low-Wage Strategy and a Race to the Bottom.

If the subcommittee remembers nothing else of what I say today, remember this:

Economic development discussion and policy have been dominated by banking and real estate interests and their representatives in government, academia, and the media. For example, *A Vision For New York's Future*, a Business Council pamphlet, outlines ten economic goals for the state. Its first four sound eerily similar to classic labor goals: job growth, good-paying jobs, population growth, and a better life for the poor. But the devil is in the details.

A closer look discloses the low-wage, trickle-down thinking that is so deeply entrenched in big business and conservative economic development thinking. In the Business Council analysis -- and the Business Council is not the worst sinner in this respect -- these are New York's economic ailments: taxes are too high; business regulation is too severe; health insurance costs and workers' compensation costs are excessive; product liability laws are too burdensome. Organized labor seeks business support for our vision of state economic development, but there is little possibility of shared vision based on a stale rehash of "low-wage, low-public-service" strategy, a staple of corporate ideology of the 1980s.

In the 1980s when the advocates of low-wage, low-skill strategy were running the US economy, the following changes were visited on the American people: de-industrialization, de-unionization, trade policies that export U.S. jobs, lower real wages, restricted access to

health care, plummeting public health standards, a plague of substance abuse, declining public services, a widening chasm of social inequality, grievous new inequities in the tax system, and greater insecurity for working people.

The low-wage strategy results in an economic race to the bottom. It is as if in their demented zeal to achieve a kind of "competitiveness" by driving U.S. standards down to ever lower levels, they forgot to ask: *competitiveness for what?* Competitiveness is only good if, by means of it, people live better. An economy isn't a *thing*; it's the ways people are organized to meet their material needs.

Manufacturing Matters. New York Manufacturing Can Be Saved.

Some say: "Manufacturing doesn't matter much anymore. The Information Age, the Service Economy and Cybernetics will relegate the American factory to a museum relic."

Although this kind of thinking isn't as popular as it used to be, it still floats around in some rarified intellectual and academic circles.

A study by the Economic Policy Institute (EPI) reveals that the nation's manufacturing sector is even more vital to the health of the economy than one might have thought. The study, *Employment Multipliers in the U.S. Economy*, found that the average U.S. manufacturing job generates four and a half times as many secondary jobs as the average retail job. It said the same factory job generates almost three times as many secondary jobs as a typical personal and business services sector job.

There is little sense in dwelling on complaints about particular policies of the New York State Department of Economic Development (NYSDED), whose job is business recruitment and retention. The truth is: defensive, reactive policies that aspire only to slow the relentless decline of the state's industrial base have not worked and won't work. Nor will attempts to save New York industry company-by-company through seductive tax abatement and subsidy packages.

The New York State Congressional Delegation Is Not Doing Enough.

It's time to organize and mobilize our thirty-one-member New York State Congressional delegation around a New York State Economic Agenda.

Elements of that agenda could be:

A. Justice for New York

Looking backward, New York suffered in the Reagan-Bush years. Senator Moynihan's *Fisc* assesses the damages precisely: New York in those 12 years was cheated of \$136 billion. By virtue of that fact -- we argue -- special consideration is

due to New York. But, though perhaps the most victimized, New York was not alone. Many states will seek a heightened level of aid from Washington. The New York delegation should mobilize aggressively to end the longstanding unfairness to our state and win the share of new federal monies the state deserves.

B. **Defeat federal policies that hurt New York. Fight for those that help New York.**

State political leaders must give a clearer lead to the Congressional delegation, as, for example, Governor Cuomo did, on federal policies that threaten the well-being of the state, for example NAFTA.

C. **The New York Congressional delegation must act cohesively and on a bipartisan basis.**

Some state delegations act as a unit to advance their state interests. With few exceptions, New York has not. That must change.

D. **Enact federal laws to curb "smokestack chasing."**

In this "no-good-deed-goes-unpunished" federal system used by Big Business to divide and rule state and local government, a state's virtues become liabilities. New York suffers political discrimination because it has a semi-civilized level of public services, a measure of social amenities, and it raises state revenue to pay for them.

New Yorkers in Congress should be foremost in devoting energy and imagination to designing new laws that restrict or eliminate beggar-thy-neighbor interstate economic competition, "smokestack chasing" of which there are all to many recent examples in the region. The U.S. Secretary of Labor, Robert Reich, has been eloquent in denouncing wasteful, piratical interstate competition. The impact of smokestack-chasing on the state treasuries can be ruinous: Texas paid \$30 million to hold on to an auto plant. North Carolina has offered a German manufacturer \$150 million to locate an auto plant in that state. Kentucky's package for a Toyota Plant in Georgetown totalled \$125 million. New York chases skyscrapers, as well as smokestacks, and just paid a disgraceful \$40 million to hold Morgan-Stanley. In March 1993 CBS was added to the list, for just under \$50 million.

E. **"Don't stop thinking about tomorrow."**

The whole delegation should follow Senator Moynihan's outstanding example and think strategically for New York. New York working people -- who send people to Congress and who pay their ample salaries -- expect them to concentrate on issues that affect New York's long-term economic future.

For example, candidate Clinton promised to develop a technology policy. He

promised to redirect \$76 billion or so in annual Federal research spending to spur industrial innovation. Areas to get stimulus include robotics, batteries, computer chips, "smart" roads, biotechnology, machine tools, fiber optic communications, mag lev trains, computer networks, digital imaging, data storage, software, sensors, computer-aided manufacturing, advanced composite materials and artificial intelligence. Governor Cuomo and the State Department of Economic Development are working on this, but who in our delegation is giving thought, attention and leadership to the question: how can New York benefit? We expect the state Congressional delegation to take the lead on this.

The Southern Tier

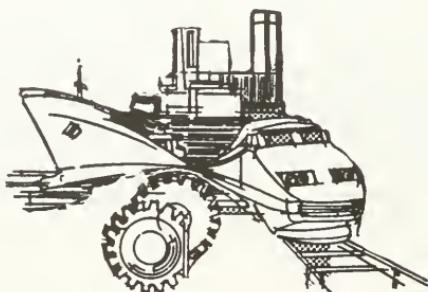
The Southern Tier has been especially devastated by the industrial restructuring and corporate downsizing of the last several years. According to the NYSDOL Labor Market Analyst for the Southern Tier Region, during the five years that ended in July 1993, the region's factories pared 15,100 high paying jobs, as staff reductions occurred at IBM, CAE-Link, Martin Marietta, Endicott Johnson and Amphenol Corporation, to name just a few. Additional cuts occurred at many small companies. The latest unemployment numbers I have, for April 1994 (not seasonally adjusted) show a slight decline in the Southern Tier unemployment rate, from 6.9% to 5.5%. This is no "recovery."

Not everybody in Albany or Washington is aware that the Southern Tier Region has the second highest concentration of defense procurement activity in New York State. The Southern Tier is a close second to the Long Island region.

Organized labor has long advocated that federal policymakers put in place an economic conversion policy worthy of the name. State government should be pressing them to do just that. State government is also responsible for the transition to a civilian economy. True, state government has fewer resources than Washington for cushioning the blows of military cutbacks. A few years ago, at the worst moments of the recession, New York State could argue, with some reason, it had no money. Albany now, evidently, has some money in its coffers, and wiser budget choices could be made about its allocations than were made in this past legislative session.

Thank you.

Toward a
NEW ECONOMIC STRATEGY
for
NEW YORK STATE



NEW YORK STATE AFL-CIO

Toward

a

NEW ECONOMIC STRATEGY

for

New York State

New York State AFL-CIO
May 1993

FOREWORD

The 1992 convention of the New York State AFL-CIO approved a resolution calling on the state labor federation to develop a broad labor vision of how the state economy should develop. This document is the consequence of that convention action.

Toward a New Economic Strategy for New York State contains what organized labor in New York is thinking about. It makes no claim to answer all questions. But, in my view, it not only asks the right questions, it points out the direction in which we must go.

The state economy is a mess. New York State's one-year job loss in 1991 was the worst since 1940, according to Regional Bureau of Labor Statistics Commissioner Sam Ehrenhalt in a pamphlet for the Rockefeller Institute entitled *Profile of a Recession: The New York Experience in the Early 1990s*. Since 1991 the unemployment rate has come down little, if at all. New York has got to do things differently. There's a good old American expression: "If it ain't broke, don't fix it." The jobless figures for our state show that something's broke, and we had better fix it.

This paper is intended to stir up a more focussed discussion in our own movement-- and in the wider public arena -- about basic economic choices facing New York State. Organized labor has been talking about the economy since there was a labor movement, and the dozens of resolutions debated and passed at state AFL-CIO conventions over the years have talked about the selfsame issues this paper raises. What is new in this paper is that we attempt to weave these ideas into a coherent whole. What is new, also, is the context, the unfolding of a new labor-supported Administration in Washington D.C.

My thanks to the committee that drafted this document: Joseph Garrison, research director, New York State AFL-CIO; Ed Ott, political director, CWA 1180, and Nick Unger, New York political director, ACTWU. The committee's work was guided by Paul Cole and Denis Hughes. Many state AFL-CIO vice presidents and local central council officers offered constructive criticism, as did AFL-CIO staff.

EDWARD J. CLEARY
President, New York State AFL-CIO

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EXECUTIVE SUMMARY

The recession that began under Bush has been hammering New York State. As a result New York State has lost 550,000 jobs in all sectors since June 1989. Signs of economic revival are faint or non-existent. Some claim manufacturing is in its death throes, with employment in manufacturing under 1 million for the first time since nearly the turn of the century. The state fiscal crisis is in its fifth year. Unemployment in the construction sector is still over 50% in all too many trades. New York City's official unemployment rate is well above the state's 8.5% rate.

With a new political moment in the nation, it is time for the New York labor movement to advance its own vision of a new state economic strategy. The state's economic decline is not just the result of a nasty regional recession, nor is it simply the result of Reagan-Bush policies, though political discrimination against New York has been devastating and resulted in a net fiscal outflow in excess of \$136 billion. The basic reason for the de-industrialization and decline of New York State is unwise economic strategy choices made decades ago. In particular, our port and rail freight systems -- vital to manufacturing -- were allowed to decline. The state has been badly served by the notion that its prosperity hinged on an "information" economy, a "financial services" economy, and a "post-industrial" future. This idea -- which corresponds to the interests and outlook of powerful banking/real estate elites and which still dominates economic development thinking in New York -- has led to a downward spiral of de-industrialization and decline that continues to this day.

The labor movement rejects this notion. Given the emergence of an Administration in Washington D.C. friendlier to working people and to New York, we propose to organize business, labor and Congressional support for a new, New York Economic Agenda around a different vision. We favor a dialogue with state government about new strategic directions. Public officials -- including Senator Moynihan and Governor Cuomo and others -- have put forward key elements of a new economic strategy. The most advanced thinking about the state economy grasps the centrality of the link between transportation innovation and the revival of the state economy.

Labor's program to rebuild New York includes these ideas:

- New York's revitalization depends chiefly on the resurgence of the private sector.
- Rebuild the port and the freight rail system.

Toward a New Economic Strategy for New York State

- Restore the value of a high school diploma.
- Raise the cost to corporations of leaving New York.
- Revive the construction industry, and build affordable housing for working people first.
- Make the state tax system more progressive and end the state fiscal crisis.
- With new economic development principles, restructure economic planning agencies and development authorities.
- Make the redevelopment of manufacturing industry a top state priority.
- Economic development for all; the most disadvantaged come first.
- Treat culture as an industry in New York.
- Create a New York Bank for Jobs and Economic Development.
- Strengthen labor rights in New York.

Economic strategy matters. New York rose to economic pre-eminence because, early in the 19th century, visionary state officials shrewdly chose to build an Erie Canal. As a result, an unremarkable town on the Eastern seaboard became a world metropolis. And much of upstate New York became a industrial powerhouse. The economic decline of New York is not inevitable. It is the result of an unwise, failed economic strategy. A new strategy can make the New York economy thrive again.

PART I

ECONOMIC BACKGROUND

"The labor movement must set its sights on putting its stamp on economic development policy. It's our city. It's our state. It's our country. We need to ask -- and answer -- the question: What kind of a country do we want?"

Edward J. Cleary, President, New York State AFL-CIO, June 5, 1992

What's Going Wrong in New York State?

- New York was the epicenter of the unemployment earthquake triggered by the Bush recession. New York State accounted for 43% of the job losses in the nation in 1991: *"Household survey data, for example, show that New York lost 318,000 jobs from December 1990 to December 1991 -- an astounding 43% of the nation's entire net job loss during that year."* (The State of the State's Economy: 1992 The Public Policy Institute of the New York State Business Council.)
- Construction unemployment remains at depression levels while the infrastructure of the state decays.
- The manufacturing base of the state continues to be destroyed. In February 1993 it was announced that the number of New Yorkers working in manufacturing jobs dipped below 1 million -- 983,300 -- for the first time since data have been collected. Some estimate that it is the lowest figure since 1906 or 1907.
- Chronic fiscal crisis undermines New York's public services that depend on -- and contribute to -- New York's underlying private economy.

New York State is still headed in the wrong economic direction. Economists predict five more lean years for the region. But we do not need economists to tell us this. Working people in New York see it all around us. We see it in the victims -- the unemployed, the homeless, the unraveling health care system, schools that fail our children.

Toward a New Economic Strategy for New York State

The recession hit New York State early, beginning in late 1987 with the crash on Wall Street. It hit New York City hardest where the official unemployment rate is still near 11 percent. It has relentlessly eroded upstate manufacturing employment and population. In 1990 the ten largest upstate cities -- Buffalo, Rochester, Syracuse, Albany, Utica, Schenectady, Niagara Falls, Troy, Binghamton, and Rome -- showed an average population loss of 6% -- even before the slump reached its most acute stage. The 1990 poverty rate in these upstate cities was over 20%, higher than in New York City. Signs of a cyclical recovery are faint at best. As of spring 1993, some of the state's largest employers are still shedding jobs. But it would be misleading to suggest that New York State's economic problems have arisen only in the last five years. They are not simply the result of a long, nasty regional recession or the consequences of Reagan-Bush policies. In our view, they stem from longer-term negative trends. Basic choices about development directions made decades ago are at the root of present difficulties.

Labor's Unique Vantage Point

The New York State AFL-CIO has a responsibility to the 2.5 million working people it represents to offer a vision that gives it a place in the discussion on the economic direction of New York State. Organized labor is one of the few institutions that represents and thinks about the well-being of people in the public and private sectors. Representing people in both sectors affords the labor movement a unique understanding of the need for balance in public policy discussion on economic development.

The New York State AFL-CIO believes that the private sector is the driving force of wealth-creation. We also believe that government has an indispensable role to play in providing the full range of public services without which industry and commerce cannot thrive. We need both a far-seeing, imaginative government and a dynamic private sector working together. Government must be guarantor of the living standards and workplace standards historically achieved by working people and the unions they have built to defend themselves.

Government on all levels has to help all of us create wealth. Since the late 1970s, with the rightward turn in American politics, the dominant view tells government to get out of the way. It has been influential even in New York. We emphatically reject that view.

A New Political Moment

Our country and our state are at a crossroads. The economic direction taken in 1993 will likely shape the nation and New York State into the next century. We have just elected a new President. His election was a reflection of his superb campaigning abilities and popular rejection of the failed policies of the past twelve years. After suffering a decade of the "trickle down" dogma

Toward a New Economic Strategy for New York State

-- the notion that a gathering of wealth by a few at the top will result in general prosperity -- the American people chose another direction. Voters recognized that *laissez-faire* is inimical to the best interest of the United States.

Like the U.S. as a whole, the State of New York must come to terms with a new political moment in the life of the nation. Not only is politics changing. The new economic thinkers in the Clinton Administration are searching for policies to make the nation prosper in an emerging global economy. New York must correctly discern its self-interest and seize its opportunities.

In this election, we believe, the American people chose a view of government as an enabling force in the economy. It is the job of government to provide good schools, to build roads, bridges and ports, and develop a trade policy that is in the national interest.

The American people have decided that the role of government is to make the private economy grow. It may seem obvious, but the contrary view of the past 12 years, endlessly propagated by the far right -- that government should be a minimal social safety net -- still has a grip on those who even reject it at a conscious level.

New York State Should Lead

Our state has a history of leading in world trade, manufacturing, finance and communications, and the list could go on. New York State economic leadership was no accident. New York has great ports in New York City, Albany and along the St. Lawrence seaway. We have a statewide university system that can educate and train more people than any other system in the nation. This, coupled with one of the most diversified work forces in the world, should allow us to not only stay even in global economic competition, but to lead.

If this state is willing to be bold and its leaders are willing to invest, we can prosper. What is needed in any economic development plan is an optimistic view of the New York future. Economic strategy is not just industrial policy. It is certainly not fiscal policy. Economic strategy requires an understanding of where the world is going and what it will take to make New York lead the way. In the 19th century economic development meant deciding to build the Erie Canal. This project opened up the Midwest to our manufacturers and traders. We need to make similar wise decisions today.

Ask the Right Questions

There is little sense in dwelling on narrow complaints about particular policies of the New York State Department of Economic Development (NYSDED), whose job is business recruitment and retention. NYSDED is filled with honest, hard working officials and friends of labor. But

Toward a New Economic Strategy for New York State

the brutal truth is: defensive, reactive policies that aspire only to slow the relentless decline of the state's industrial base have not worked and won't work. Nor will attempts to save New York industry company by company through seductive tax abatement and subsidy packages.

We should not be asking the question: What is DED doing wrong? The right questions to ask are: What is a new economic development strategy that can propel the state economy back to the leadership that it held for so many decades? What strategic choices must New York State make now so that in ten years the state economy is in a more competitive position?

Some New York State strategies -- the running down of the Port of New York and its freight rail system in the first place -- have been calamitous. To reverse New York's decline we must bite the bullet and reverse those policies.

An Opposing View

Economic development discussion and policy have been dominated by banking and real estate interests and their representatives in government, academia, and the media. Very different views than ours are propagated by, for example, *A Vision For New York's Future*, a Business Council pamphlet outlining ten economic goals for the state. Its first four sound eerily similar to classic labor goals: job growth, good-paying jobs, population growth, and a better life for the poor. But "*the devil is in the details.*"

A closer look discloses profound differences. In the Business Council analysis these are New York's economic ailments: taxes are too high; business regulation is too severe; health insurance costs and workers' compensation costs are excessive; product liability laws are too burdensome. Organized labor seeks business support for our vision of state economic development, but there is little possibility of shared vision based on a stale rehash of "low-wage, low-public-service" strategy, a staple of corporate ideology of the 1980s.

What States Can and Cannot Do

State government must be an active organizer of a strategy for creating wealth in our state. For, in one sense, there is no U.S. economy. The country is too big and too varied to be considered a single economic unit. Thinking about the economy must take into account that the U.S. economy is a collection of regional economies, some booming, some reviving, some sinking and some barely alive.

In the 1980s, with a hostile White House and with New York State shortchanged by federal policy, there was extra pressure on the labor movement to try to do things in Albany that could not

Toward a New Economic Strategy for New York State

be done in Washington D.C. For example, on tax policy, on programs to convert from defense to civilian production and other issues, all too often Albany said that there was no money to make big moves. *"Wait till there's a Democrat in the White House."* It was wrong even in the 1980s, but the excuse is now gone. In 1993, with a labor-supported Administration in Washington D.C., there may be fewer disagreements about what can or cannot be done at the state level.

State efforts do have limitations. States do not have the economic policy powers of the national government. The states do not possess the federal government's power to deal with other countries in matters of trade and co-ordination of economic policies. We acknowledge there are some things that the federal government alone can and must do.

But we insist that state leaders recognize that *economic fundamentals -- shaped by the state -- matter. State economic strategy matters.* The state role goes way beyond the notion that state experimentation eventually leads to federal solutions. More than two centuries of New York State history show that when state government shrewdly chose the right economic strategy, it set in motion the immense wealth-creating potential of New York.

PART II

ORIGIN AND GOALS OF THIS DOCUMENT

Origin

This document springs from several separate discussions within the labor movement. In 1991 the state AFL-CIO -- confronting the state \$6 billion budget deficit and resulting fiscal crisis -- united both public and private sector unions for the first time around demands for a new state tax policy -- centered on a restructured and more progressive tax system. The result was the study *Taxes We Can Live With*. The federation's success in forging consensus emboldened it to try a larger project.

About the same time some New York City public employee unions were fighting for new revenues to meet a New York City budget deficit threatening their members' jobs. They found that focussing only on revenues failed to win much public support and made it harder to involve other sectors of organized labor such as the building trades, industrial unions, and other private sector unions. Thus was born the **Labor Coalition to Rebuild New York**, an independent labor committee uniting some public and private sector unions striving to go beyond revenue-raising ideas issues to the bigger question: *Why wasn't the New York City economy working?*

Simultaneously, the state AFL-CIO was organizing an Industrial Division to better express the needs of the state's industrial unions. The Industrial Division's first conference in Syracuse showed great unhappiness with state economic development practices. Moreover, industrial unions were keen to revive public discussion about the need for an industrial policy.

Another stream feeding the widening river was the education reform debate. Since the early 1980s the AFT has led that debate, linking workforce preparation issues to the larger question of the new U.S. and global economy. Ideas now becoming policy in Clinton's Department of Labor originated in the work of teacher trade unionists.

Decisive impetus came in October 1992 when the Executive Council of the state AFL-CIO gave final approval to a convention resolution which called upon the federation "to establish a *Redevelop New York Task Force*; to encourage the drawing up of a *Redevelop New York Economic Plan*; to encourage democratic discussion of the *Redevelop New York Plan* throughout the state." Nationally, the AFL-CIO'S Public Employee Department and the AFL-CIO itself, working with the

Corporation for Enterprise Development, had concluded that "states were where the economic development action is" and produced *Working Capitols, a Blueprint for State Economic Development*. That document contains case studies of successes in bringing organized labor's influence to bear on economic development.

Finally, November 1992 brought good news and bad news for New Yorkers. It was a new political moment, with the Clinton election opening up new possibilities, with many key Clinton advisors committed to new economic thinking and the promise of a "high-wage, high-skill economy" and a jobs program to stimulate the economy of a New York that had been the special victim of Reagan-Bush hostility. But the labor-supported Bond Act, a modest and sensible proposal for job creation in the state, went down to defeat by a hefty margin. It was a warning to labor about how much needs to be done to influence not only policymaker thinking but voter perceptions of the state's real economic problems.

Goals

1. To influence the debate about the shape and size of new federal spending in New York.

Disheartening though the April 1993 defeat of the economic stimulus plan was, it was a lost battle, not a lost war.

New federal money should be speedily directed to job-creating infrastructure. Construction workers desperately need work, and existing infrastructure needs fixing fast. But we should not do infrastructure in the old way that reflects the failed strategy. The stimulus should first be applied to port and rail facilities that will reverse the de-industrialization of the city, metro region, and state. The stimulus should be large and it should be directed where most needed. Listen to the mayors: on January 25, 1993 the nation's mayors identified more than 7,000 ready-to-go construction projects that would cost \$27 billion dollars and create 400,000 jobs.

"It's the Economy, Stupid!" is the celebrated phrase on the blackboard in the headquarters of the Clinton campaign that kept campaign strategists and the candidate on message. The advice clinched the White House.

As of spring 1993 big new layoffs announced by IBM, GM, Sears, Kodak, Pratt and Whitney, etc. strengthened the case for a job-creating stimulus. By its foolish rejection of the stimulus plan Congress has heightened the danger that the recovery will falter. As it was, the Clinton stimulus proposal was too small. Only a year ago the AFL-CIO was calling for a \$60 billion program at a *minimum*.

New York cannot pin all its hopes on an early federal rescue. We don't know how long it

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will take to win the argument for a big public works program. New federal money, in any case, won't be enough to meet the immense backlog of needs in the state. The issue can't be dodged: new revenue needs to be raised in New York State by fair and adequate state taxes, a point we make elsewhere.

Jobs are priority #1. Let federal deficit reduction come out of savings, for example, achieved by real health care reform, not by foregoing a jobs program. The Clinton Administration can save billions if it listens to its allies in the labor movement and rejects the siren song of "managed competition," a notion tried nowhere in the world and unable to slow the health care inflation that is wrecking the competitiveness of the U.S. economy. New York especially stands to gain from real health care reform. To its credit, the state has largely refused to turn its face against the needy and sick, but the reality is the cost of health insurance is crippling New York businesses and imperilling state and local budgets.

The shape and size of new federal spending in New York should recognize that *New York State was the special victim of the last 12 years*. New York has been pilloried in Reagan-Bush demonology as a symbol of "the failure of the welfare state." But, it wasn't just a propaganda war against New York; it was a fiscal war. Our state and its people have been cheated. Senator Moynihan has measured New York's "balance of payments" with Washington D.C. -- the difference between what this state sent to what Washington and what it received back. *The net loss was \$136 billion from Reagan's first inaugural through the end of fiscal 1991*. That is the dimension of the political discrimination suffered by New York. It had more than a little to do with the state's present economic crisis.

No wonder New York gave its votes to Clinton and Gore -- almost 50% in a three-way race -- as few other states did in November 1992. We believe that, as states line up for their fair share of the new administration's public investment program, New York should be given its due. We were first in line for the punishment; we stake a claim to be first in line for the healing.

2. To pull together the strands of economic development discussion going on in the labor movement.

The state AFL-CIO believes that public sector unions should think about the revitalization of manufacturing. Industrial unions should think about fiscal policy and the maintenance of public services, and both of these should understand the urgent need for job creation in construction that can jump-start the whole economy and stimulate a cyclical recovery.

This document aims to begin -- not conclude -- a discussion in the labor movement around a broad, coherent vision of what economic development should look like in New York, and what federal and state government should be doing for the state economy. But it speaks not only of the

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interests of union members, or even workers generally. We need a strategy in the interests of all New Yorkers. We want a strategy that produces flourishing business enterprises.

3. To support the sound economic development initiatives by New York state government and to criticize state government where necessary.

So many of the current administration's ideas and policies are worthy of organized labor's wholehearted support. But we want to engage state government in a discussion about new strategic directions.

The governor has been particularly eloquent on many of the key points argued in this paper. For example, in a Wall Street Journal article (12-24-92) on the state's Industrial Effectiveness Program, the governor declared: "*You have to retain all the manufacturing base you can because you can't have a pure service economy and make it.*" Our point exactly.

But such clarity seems less in evidence elsewhere in state government. Read the *Draft New York State 1993-1996 Economic Development Plan* circulated for public comment in January 1993. *There are many words about manufacturing modernization, but it is agnostic about whether manufacturing employment -- now less than one million -- can be increased.* Truth is: Albany expects the hemorrhaging of manufacturing industry to continue. Albany hopes to slow it, but it doesn't think it can be stopped, let alone reversed. We think it *can* be reversed. But, for now, New York State is still careening toward a factory-free future.

One could wish for improvements in the political culture at economic development agencies, state and city.

Item: A staff economist at NYSDED sought data from a state labor federation staffer on private sector union density, much lower than that of the highly organized New York public sector, so DED could reassure a visiting corporate management that New York State, after all, wasn't as unionized as management feared.

Item: The day New York State AFL-CIO President Cleary spoke to the *Making New York Work Again* conference, banker Barry Sullivan, newly appointed New York City Commissioner of Economic Development, on an economic mission to the United Kingdom was quoted in the New York Times as saying to British business "*....what New York City needed was more low-wage service workers.*"

The New York State AFL-CIO has been especially enthusiastic about another initiative of the Cuomo Administration, the *Excelsior Award*. It reflects advanced thinking about what it takes to achieve world-class quality levels, a high-skill workforce, and co-operative labor-management

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relations. *Excelsior* breaks new ground in that the award is open not only to business organizations, but to public sector agencies and educational institutions.

State of the State messages and Executive Budgets are not economic strategy documents, but there are many praiseworthy, labor-supported economic development ideas announced by the Administration in January 1993. For example, the New, New York initiatives such as widening highways, improving access to airports, incentives for technology transfer, and steps to boost tourism. *Investing in Transportation*, outlines the need for public investments in highways, bridges, and mass transit systems. Pursuing New Transportation Technology hails the New York record of innovation and the technologies -- including mag lev -- on which the New York future depends.

Especially welcome is the governor's assignment of State DED to "develop an updated technology policy" for the next five years in anticipation of new Federal spending in this area.

The State of the State message correctly states: "We know we can not expect substantial help from Washington immediately....we must continue to take constructive action at the state level to revive our economy." To put in place a new strategy, revenue will be needed.

But a serious difference remains over a key issue on which so much else depends: tax policy. It is disappointing that the framers of the Executive Budget still are unwilling to contemplate raising broad-based taxes. Such a stance denies the Administration the very revenue it needs to carry out its best ideas. The root of the difference is varying estimates of how far the state can raise its own revenues without risking business exodus. There is reason to suppose that, with a Democratic White House and Congress, the federal tax structure will evolve toward greater progressivity, giving Albany new political space and a federal partner it hasn't had for 12 years.

4. To organize and mobilize our thirty-one-member New York State Congressional delegation around a New York State Economic Agenda.

Elements of that agenda could be:

A. Justice for New York

Looking backward, New York suffered in the Reagan-Bush years. Senator Moynihan's *Fisc* assesses the damage precisely: New York was cheated of \$136 billion. By virtue of that fact -- we argue-- special consideration is due to New York. But, though perhaps the most victimized, New York was not alone. Many states will seek a heightened level of aid from Clinton and Congress. The New York delegation should mobilize aggressively to end the longstanding unfairness to our state and win the share of new federal monies the state

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deserves. Looking forward, why isn't more being done by the New York delegation to take the lead, for example, in opposition to federal laws that give incentives for export of capital and jobs out of state, or worse, out of the country? The delegation should make the most of the fact that Clinton and Gore during the campaign signaled a favorable attitude to such reforms.

B. Defeat federal policies that hurt New York. Fight for those that help New York.

State political leaders must give a clearer lead to the Congressional delegation, as, for example, Governor Cuomo has already done, on federal policies that threaten the well-being of the state, including NAFTA and GATT.

The delegation should fight for genuine national health care reform not only on its merits, but because it will make New York more competitive. Moreover, taking its lead from the labor movement, the delegation should fight for comprehensive labor law reform, for example. New York, a state with relatively high union density, can only benefit competitively if, with new and fairer labor laws in the 1990s, organizing drives succeed in raising union density in the Sunbelt.

C. The New York Congressional delegation must act cohesively and on a bipartisan basis.

Some state delegations act as a unit to advance their state interests. With few exceptions, New York has not. That must change.

D. Enact federal laws to curb "smokestack chasing."

In this "no-good-deed-goes-unpunished" federal system used by Big Business to divide and rule state and local government, a state's virtues become liabilities. New York suffers political discrimination because it has a semi-civilized level of public services, a measure of social amenities, and raises state revenue to pay for them.

New Yorkers in Congress should be foremost in devoting political energy and imagination to designing new laws that restrict or eliminate beggar-thy-neighbor interstate economic competition, "smokestack chasing" of which there are all too many recent examples in the tri-state region. The new U.S. Secretary of Labor, political economist Robert Reich, has been eloquent -- ironically at the October 1991 conference where the so called "non-aggression pact" among the three states of the metro region was signed -- in denouncing wasteful,

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piratical interstate competition. The impact of smokestack-chasing on state treasuries can be ruinous: Texas paid \$30 million to hold on to an auto plant. North Carolina has offered a German manufacturer \$150 million to locate an auto plant in that state. Kentucky's package for a Toyota Plant in Georgetown totalled \$125 million. New York chases skyscrapers, as well as smokestacks, and just paid a disgraceful \$40 million to hold Morgan-Stanley. In March 1993 CBS was added to the list, for just under \$50 million.

E. "Don't stop thinking about tomorrow."

The whole delegation should follow Senator Moynihan's outstanding example and *think strategically for New York*. New York working people -- who send people to Congress and who pay their ample salaries -- expect them to concentrate on issues that affect New York's long-term economic future.

For example, candidate Clinton promised to develop a technology policy. He promised to redirect \$76 billion or so in annual Federal research spending so it spurs industrial innovation. Areas to get stimulus include robotics, batteries, computer chips, "smart" roads, biotechnology, machine tools, fiber optic communications, mag lev trains, computer networks, digital imaging, data storage, software, sensors, computer-aided manufacturing, advanced composite materials and artificial intelligence. Governor Cuomo and the State DED are working on this, but who *in our delegation* is giving thought, attention and leadership to the question: how can New York benefit?

Clinton's most important campaign speech on the economy was at the Detroit Economic Club where he spoke of the need for a national economic strategy. How does a New York State Economic Agenda fit in? *We expect the state Congressional delegation to take the lead on this.*

PART III

A LABOR PROGRAM TO REBUILD NEW YORK

State and local economies depend on a private-public partnership to create a climate in which growth can occur and jobs be created. Governments often act in a short-sighted manner when they respond to recession by cutting essential services and investments for the future.

Effective economic development is based on a willingness to make public investments. This means training workers, educating the young, fostering new technologies and high tech industries and putting in place the necessary roads, bridges and airports. It also means encouraging basic industries with well-paying manufacturing jobs.

Encouraging business firms and developing new jobs is important. But state and local governments have important roles to play in providing essential services, too. They cannot fulfill their basic functions if they are giving away their tax base to footloose business out for the best deal.

Working Capitols: A Blueprint for State Economic Development**Labor's 12-Point Program to Rebuild New York State**

The following 12-point program contains our specific proposals for a new strategy for the New York State economy.

1. New York's economic revitalization depends chiefly on the resurgence of the private economy.

The people of New York have to get back to work. The private economy is where most New Yorkers work and where most wealth is produced. President Clinton campaigned and won on a rejection of the trickle-down economic dogma of the Reagan-Bush era -- the notion that unleashing the greed of corporations and the rich through slashing their taxes would power the economy to lasting prosperity. In truth, trickle-down dogma never corresponded to reality. The better years of the 1980s

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depended on foreign creditors financing massive, expansionary federal deficits. In the 1990s, conditions have changed, and such policies have reached their limits. They are no longer options.

What will it take to revitalize New York's private economy? A federal fiscal stimulus program will start the process. "Prime the pump" with spending on public works projects, on education and training, on programs to build new housing for low and moderate income Americans, and on aid to state and local government to forestall further public service cutbacks.

In February 1992 the national AFL-CIO called for a fiscal stimulus on the order of a mere one percent of GDP -- which then would have amounted to about \$60 billion. It remains a good formula with which to counter those in the Clinton Administration advocating a small, weak jobs program, far below what is needed. One percent of GDP is not too much to ask.

2. The urgent, immediate step, then, is a public works program to rebuild infrastructure. But, infrastructure, a trendy word these days, does not just mean repair of existing roads and bridges. If long-term decline is to be reversed and competitiveness is to be restored, New York State must do something new: rebuild the port and railroad system. A world-class economy needs a world-class transportation system that can move goods and people.

Moynihan on Transportation Innovation

New York is going to get it wrong if it does the same old thing. A bold thinker -- and doer -- about transportation in New York is none other than the state's senior U.S. Senator. Senator Moynihan shepherded through Congress, with a hostile Administration in the White House, a major bill bringing \$12 billion in federal transportation funding for the state, plus an additional \$5 billion as repayment for the Thruway, through the 1990 Intermodal Surface Transportation Efficiency Act, ISTEA, so called.

Moynihan's pioneering November 1989 essay in Scientific American on magnetic levitation transportation technology ("mag lev") -- invented on Long Island by a New York scientist in the 1960s, but developed overseas by our economic rivals -- launched public discussion about this promising new technology.

...There was always some development in transportation that the world came to New York to see... New York has defined itself by its innovations in transportation -- the Erie Canal, the steamboat, the New York Central Railroad, the elevated transit, the subway, the St. Lawrence Seaway, the Thruway. In half a century New York state has not introduced a single new mode of transportation, we who had done so in every generation for 150 years.

As of October 1992 Moynihan was openly expressing worry that the new money would be spent on maintaining the transportation *status quo*.

Causes of Deindustrialization

The heart of the matter is this: begin with New York City, representing, say, half the population of the state. New York City rose to world economic leadership not because Big Real Estate nestled here thinking the views overlooking the Palisades would be terrific. New York City rose because of fundamental competitive advantages: in the early 19th century enlightened New York State economic strategy dug an Erie canal that gave New York harbor access to the interior of the North American continent and because, next to Rotterdam, we have the deepest, most navigable all-year port in the world.

In the 20th century enlightened decision-making gave way to its opposite. Planning decisions -- elite planning not democratic planning -- made in the first post-World War II decades gave priority to the wishes of big banks and big real estate. New York City is still living out the consequences of the downward spiral of industrial decline that these decisions initiated. They were based on the illusion of the ever-expanding financial service economy. Despite protests from maritime unions, industry, merchants and communities, the port declined in New York. Against the odds, with sheer doggedness and often alone, maritime unions have for decades fought brilliant defensive battles to hold on to waterfront jobs. As a result of the port's decline, the rail system died too. Without the traffic generated by the world's greatest port, the rail system became unviable. Today, New York City is the only city in the nation without a freight rail connection to the mainland. Industrial jobs, dependent on cheap sea and rail transport, began to hemorrhage.

These ideas apply not only to New York City, but to the whole state. To be competitive, New York State needs a first-rate transportation system based on a rebirth of the Port of New York. That alone will give a lift to manufacturing industry across the state. Too, there must fresh thinking about upstate requirements for freight rail and port facilities to make sure New York's geographic advantages are fully exploited.

A 21st century world-class manufacturing sector cannot rely on a 19th century transportation system.

Another seminal thinker with convincing arguments on economic development and transportation policy is a newly minted New York City Congressman, Rep. Jerrold Nadler. His views are being tested in the current political battle to ensure that ISTEA money is used in part to fund a \$750 million rail freight tunnel under New York harbor from Brooklyn to Staten Island or New Jersey. Nadler's arguments, drawn from a 1991 speech and worth citing at length, make excellent economic development sense:

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The fact is the New York region is in severe systemic -- not merely cyclical -- economic decline. Manufacturing employment in the City is down 152,000 jobs since 1980, a 30 percent loss -- five times the 6 percent national average for the same period. In the last couple of decades we have concentrated all our economic eggs in ever fewer baskets -- principally the so called FIRE industries (finance, insurance, and real estate). The recent boom in these areas gave us a false image of prosperity. New York is having a difficult time holding these industries. They are characterized by mobility: As telecommunication improves, so does the ability of companies to move away from New York.

We find ourselves in the position of competing to hold our base industries essentially by saying -- to caricature only slightly -- "We will charge you lower tax rates, we will enable you to pay lower wages, and we will have worse social service than anywhere else." We will even give tax abatements worth hundreds of millions of dollars to specific companies to bribe them to stay in New York.

New York grew up because of its geographic advantages. We have one of the greatest ports in the world. We are located at the entrance to the only sea level route to the interior of the continent from the eastern seaboard. From any other entry point on the eastern seaboard, you must cross mountains to get to the interior. Crossing mountains whether by mule, truck or airplane takes energy and energy is expensive.

For 135 years the leaders of our region made sure that what we would call today "government infrastructure projects" were designed and built to exploit our natural advantage and to keep us a generation ahead of rival ports. Farsighted statesmen built, first the Erie Canal and then the Erie Lackawanna Railroad ...

In 1820, New York handled three percent of the nation's shipping. In 1830, after the 1825 completion of the Erie Canal, New York handled 37 percent of the nation's shipping. By the turn of the century, New York traffic to the West was 450 times that of Philadelphia and Baltimore combined. But our infrastructure development was never completed. Alone among major ports, we never built a bridge or tunnel for rail freight traffic across our river.

In the last 35 years we have forgotten our century long tradition of maintaining the infrastructure to keep our port pre-eminent. We did not complete and rationalize the rail freight network to our port. We allowed the Port Authority to build the region's major container ports on Newark Bay instead of New York Harbor. We allowed the virtual abandonment of the float system which used to float rail cars across the Harbor on barges. We even allowed the Final Plan for Conrail to abandon freight services east of the Hudson. In the 1960s the obsolescence of the region's freight system led to the

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failure of every rail carrier servicing the Port of New York.

Numerous rail barge services, which linked the City to the nation using 19th century technology, closed. Over 600,000 industrial jobs were lost in a seven year period. In the 1980s we lost another 30 percent of our industrial jobs. This continuing catastrophe eclipses even the present disaster on Wall Street.

The cumulative result has been to destabilize New York City's economy by making it almost entirely dependent on service industries.

Although lack of rail freight access is the largest reason for New York's extraordinary industrial decline, several factors have combined to attack New York's industrial base. The three largest factors have been: the collapse of our freight rail transportation system, the high cost of space, and the high cost of energy.

The City cannot hope to hold or attract employers, particularly in the service industries, by attempting as it is now doing, to compete with other regions in offering an environment of lower taxes, lower wages and reduced social services.

If we are to rebuild our economy, we must re-establish an anchor industry that will provide reasons for the service industries to locate or remain here, and that relies on the City's unique -- and immovable -- geographic advantages. In short, we must re-establish New York as the major port and industrial center in the East -- as a place which is worth doing business in.

To do this we must correct our massive economic blunder. Atlantic trade is increasingly flowing to the ports of Norfolk and Baltimore. It is now predictable that in ten years, essentially all Atlantic trade will flow through Norfolk. This is in spite of the fact that New York is 3/4 of a day sailing time closer to European ports than Norfolk and 1 and 1/2 days closer than Baltimore -- twice as much round trip. This means that at \$30,000 a day to operate a modern freighter, New York enjoys a \$45,000 per trip economic advantage over Norfolk, and over \$90,000 over Baltimore. This natural advantage is completely offset by the lack of a direct modern rail freight access to a container port facility in New York.

Only several months ago, Mayor Dinkins proposed, and the City Council agreed, to abolish the Department of Ports and Trade, and to incorporate it into a renamed Public Development Corporation -- a real-estate-oriented agency...

The current State budget includes \$2 1/3 billion for capital improvements on our highway system and zero for rail freight and port improvements.

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Building the new transportation system is not a make-work program. It is an investment in a modern economy for the entire region.

3. Restore the value of a high school diploma.

By comparison with other states New York already makes enormous investments in education and training, albeit less than what is needed. It is one of the state's greatest competitive strengths.

In a 1990 document *Schools for the Future* the New York State Business Council and the New York State AFL-CIO jointly outlined new education ideas that could make the state an even more powerful economic competitor.

The United States faces dramatic new challenges in a changing world economic order; we need dramatic improvement in the performance of our educational system if we are to meet those challenges. Unless we get better performance from our schools, we are condemning the United States to status as a second-class economic power -- and condemning untold hundreds of thousands of our young people to a life without meaningful employment.

In the face of these challenges, we believe New York State must move aggressively to upgrade our expectations for educational outcomes -- and to use the skills of our education professionals, and the discipline of accountability, in meeting those higher expectations.

Our program for the schools is focused on upgrading the objectives, and restructuring the work, of our school system. Specifically, we would:

- Establish the highest international standards for the educational process, gearing diploma and other credentialing requirements to the increasing demands of a highly competitive world.
- Restructure our schools to ensure that parents and the community can demand high performance from our schools -- and to ensure that the managers and staff of the schools have the flexibility needed to respond to the demands for better performance.

The Board of Regents took the first step in this direction by adopting the following simple but significant policy statement: "*All recipients of a local or Regents Diploma should be prepared for immediate employment and/or post-secondary education.*" The Anderson Committee, representing a broad cross-section of the educational community as well as labor and business, found that our school system is not geared to turning out young people who have the skills our society needs -- and that our economy, and our democratic way of life, demand. The committee found, and we concur, that New

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York must raise its performance expectations to produce high school graduates who are qualified to begin work or enter college. We wholeheartedly endorse the committee's key recommendations:

- Raise performance expectations for all students in the core areas of reading, writing, and mathematics to world-class levels.
- Eliminate the general diploma.
- Change the primary focus of the Education Department from emphasis on education procedures, to an emphasis on educational outcomes. Focus, that is, not on rules about how many and what kinds of classes students must attend -- but instead, on what they must know and be able to do before they graduate.

We recommend, therefore, that the Regents move vigorously to:

- Implement the *New Compact for Learning*.
- Recognize the role of teachers statewide in helping to determine structure, curriculum, teaching methods and other facets of the educational experience in individual schools by supporting site-based management and shared decision-making.
- Authorize "leading edge" experiments in a large, diverse and representative sampling of the state's schools, in which deregulation, and autonomous decision-making, would proceed at a much faster pace than in schools generally. This would speed up the development and recognition of the most effective new strategies.

Business and labor must accept a special responsibility to report back to the schools on the changing needs of the workplace, and on the impact of educational reform on the preparedness of entering workers in the years ahead. Specifically, labor and business must take a leading role in identifying the knowledge and skills required in high performance workplaces and work together to establish the highest standards, assist in establishing new authentic forms of assessment and create a system of credentialing that will incorporate the standards and be portable. Business, industry and labor must also develop procedures that link the opportunity to work to school performance.

The public must be prepared to support radical and continuing change in the educational system -- a system which has fallen behind in the rapidly growing demands of our economy and of the society and the world in which we live.

The New York State AFL-CIO encourages the Board of Regents, the State Education Department and state political leaders to move swiftly to adopt the Task Force on Career Pathways recommendations outlined in the report *Education That Works: Creating Career Pathways for New*

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York State Youth. The task force included representatives of labor, business, education, and government. Delegates to the 27th Constitutional Convention of the New York State AFL-CIO in September 1992 unanimously adopted a resolution endorsing the report and urged the state AFL-CIO and its affiliates to support and actively participate in implementing the report.

The state AFL-CIO also urges implementation of the State Education Department's paper *Preparing Youth for the Workplace: An Integrated Approach*. The recommendation of the Career Pathways report and the SED paper -- to create a competitive workforce second to none -- is consistent with the principles outlined in the state AFL-CIO and Business Council document *Schools for the Future*.

The state AFL-CIO commends Governor Mario Cuomo, Lt. Gov. Stan Lundine and the State Job Training and Partnership Council for continuing leadership in pushing for full implementation of the Career Pathways report. The state federation calls for full and active participation of organized labor in its implementation.

The New York State AFL-CIO convention delegates also adopted a resolution "to convene leaders across New York State to develop a public policy position which vigorously promotes the establishment of workplace education and training programs for all workers." Working with a grant from the State Education Department, the State AFL-CIO convened such a group and launched a comprehensive review of workplace learning activities. Questionnaires have been sent to business and labor organizations regarding workplace learning. The results will be tabulated, analyzed and interpreted. A policy paper will be prepared and a statewide conference held focussing on methods to improve and upgrade workplace learning programs.

The state AFL-CIO will work with its partners "to encourage public and private investment in our greatest asset... our working men and women." With respect to economic development, workers should be treated as assets to be developed, not costs to be controlled.

The New York State AFL-CIO also recognizes the essential role that the state's system of higher education plays in promoting the state's economy. The state's higher education system, long recognized as a major asset to the state's economic development, has recently been battered by cuts in programs, staff and services.

Our system of higher education not only educates students for future employment in a wide variety of occupations and professions, but also serves the state's economy through its library and information systems and research.

New York State's efforts to revitalize its economy and prepare workers of all levels to function effectively in dramatically changing workplaces will fail unless our system of post-secondary education from community colleges to universities is given the financial support it needs. Support of

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SUNY and CUNY as the state's publicly funded higher education institutions, must again become a priority for the governor and state legislature.

4. Raise the cost to corporations of leaving New York State.

More than one observer has commented that when public policy talks about creating incentives, employers get the carrots and workers get the sticks. In the case of the investment bank Morgan-Stanley's threatened move to Connecticut, Crain's New York Business stridently called for City and State subsidies. Crain's predicted that much of Wall Street would flee to Stamford unless tens of millions of dollars were handed to Morgan Stanley. When Morgan Stanley prevailed, DED officials hailed the subsidy as a victory for New York. Some victory.

If incentives for job creation and retention are legitimate tools of public policy, balance requires public policy disincentives for corporate flight as well:

1. Go beyond existing law (WARN, EDWAA, etc.) Advance notice of impending layoffs, dismissals and plant shutdowns should be given to government, affected trade unions and individual workers as soon as the employer contemplates the decision. Since in many cases the lag time between shutdown and a new startup or conversion of an abandoned facility is three to five years, and in many other cases conversion is never made, a one-year mandatory prenotification period is not unreasonable.
2. Employers have a duty to show cause why they must shut down, move operations, reduce the work force or make other planned dismissals. Accurate information about a firm's financial condition, costs and profits is essential to evaluate the necessity of a revision, move or shutdown. Production of these data and financial records must be subject to subpoena powers, and not left to voluntary compliance or to time-consuming legal discovery proceedings. It should be mandatory for companies to bargain with unions over shutdown and cutback decisions, not just over the effects of those decisions as now. The company must offer to begin such bargaining well in advance of implementing its decision.
3. Reasonable proposals by trade unions, impacted workers, and government to avert shutdown or dismissals must be given a fair hearing and guaranteed a fair chance to be implemented.
4. Economic and social studies assessing employment, income, housing market and general business activity within the impacted community -- made by a proper government agency -- should be mandatory.
5. Failure to comply with the advance notice, duty to provide accurate information, mandatory impact study and other requirements should invoke stiff penalties. In the event a firm

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proceeds to move or shut down or implement a revision after failure to show cause, it should lose tax incentives, credits and subsidies, be liable for the full cost of adjustment assistance and in certain circumstances face debarment from bidding on contracts.

6. Unless show-cause hearings determine otherwise, development of an alternative production plan for an abandoned facility should be also mandatory and must include a survey of market potential for alternative products or services. Alternative production plans which are developed should meet emerging or unmet national priorities.

7. Targeted federal and state procurement should be utilized in support of alternative productive plans, and to prevent dislocation.

8. Communities that lose tax revenues as a result of a plant shutdown must be compensated in order that vital services are not impaired or interrupted.

9. State and local tax abatements and tax exempt industrial development revenue bonds used to lure plants and industries from one region, state or community to another must be abolished.

10. To coordinate implementation of the above recommendations, appropriate labor market bodies at the national, regional, and community levels -- as well as workplace adjustment and planning groups when needed -- must be created.

Some new developments are noteworthy. Taking a cue from the state and local government sanctions imposed against companies that do business with South Africa, legislation was recently drafted in New Jersey that would establish, in concert with other states, a Multistate Industrial Retention Commission which would recommend sanctions against runaway companies. The initiative is designed to use the combined power of state public employee pension funds to discourage companies from relocating either across state lines or overseas in pursuit of lower wages or fewer regulations. The pension funds would impose such sanctions as the divestiture of assets held in "runaway" companies, public contracting restrictions or the denial of economic development assistance, including tax rebates or subsidized financing.

A new legal ruling may help put an end to bidding wars among communities. Judge Donald Shelton ruled in favor of the township of Ypsilanti, Michigan that GM had an obligation to preserve jobs in its Willow Run plant. Ypsilanti argued that GM promised verbally in a public meeting to keep the plant open in the township when it accepted \$1.3 billion in tax abatements. The ruling temporarily halted GM's plans to move operations to Arlington, Texas which had been the focus of a heated dispute between state and local governments last year. GM is seeking an emergency appeal hearing before the Michigan Court of Appeals. If the ruling is upheld, GM would have to continue producing cars at the Willow Run plant beyond the planned shutdown scheduled for summer 1993.

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In the New York State Legislature a bill (S3597\A6068) has been introduced with provisions that, where the state has given a loan, tax abatement or other incentive to a New York based company and the company subsequently leaves New York or significantly reduces its operations here, the agency or public authority which provided the incentive may demand immediate repayment with interest.

5. Revive the construction industry, and build affordable housing for working people first.

An economy that tolerates 50%-plus joblessness rates while possessing the most skilled, productive construction workers in the world is committing suicide. A comprehensive program to stimulate the economy and create jobs should be the highest federal economic priority.

Spending on construction sends ripples of economic stimulus throughout the whole economy. The AFL-CIO estimates that one billion dollars spent on construction contracts for infrastructure would directly generate 15,000 to 20,000 jobs, about half in construction and the other half in manufacturing, trade, transportation and services. Infrastructure program matching requirements imposed on cities and states in order to obtain federal funds should be waived temporarily, or deferred in view of the fiscal crisis of states and cities because of high unemployment, declining personal incomes, and prolonged economic stagnation.

A healthy economy provides affordable, decent housing for its workers. This was the history of New York when it was growing. New York City used to have many stable working class housing districts. This simple notion was lost in the New York of the 1980s. More companies leave New York because their employees can't live in New York than because employers can't or won't pay New York taxes. Add to this the criminal failure by public officials to end homelessness, and housing becomes a priority economic and social investment.

New York has a ready pool of highly trained, technically skilled construction workers, vast areas of publicly owned land, and large capital pools of pension funds. It also has thousands of young people looking for meaningful work. Labor calls for a House New Yorkers For A Better New York Program that builds affordable housing. Apprenticeship is the backbone of the construction industry. Apprenticeship should be expanded into new areas of the economy, including services and the professions.

6. Make the state tax system more progressive and end the state fiscal crisis, now in its fifth year and seemingly chronic.

Other states -- notably California -- have a worse fiscal problem than ours, but our state fiscal crisis is bad and shows few signs of abating. The state isn't raising enough revenue to meet our needs,

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partly because it is mired in an economic slump, partly because the tax system suffers technical flaws and partly because the tax system isn't progressive enough.

In *Taxes We Can Live With*, published in March 1991, the state labor movement outlined a plan to close the deficit through a restructured, more progressive state tax system, more reliant on the "workhorse" of the state revenue-raising system, the Personal Income Tax (PIT). Act on the recommendations of *Taxes We Can Live With*. Every scientific study ever done shows that taxes are not dominant in business location decisions. Similar conclusions have been reached in studies carried out by the Fiscal Policy Institute.

A vibrant public sector is a key to economic development. That is what taxes pay for. Compared to its economic competitors, the U.S. drastically underfunds its public sector, with proven negative impacts on private sector productivity. The "privatization" drive fashionable in some government circles is thus both illogical from the standpoint of economic development and tantamount to public sector union-busting.

In 1987 New York State enacted sharp rate cuts in the PIT lured by the promise that lower taxes would create competitive advantages. The lost revenue was to be restored by expanding the tax base via the pass-through of federal tax reforms just completed. The expanded base was overestimated in New York as it was nationwide. The tax cut alone cost the state \$2.3 billion yearly.

Labor's tax proposals are moderate. There *is* room to raise state taxes -- not infinite room, given the realities of interstate competition -- but room enough for a substantial rise. To put it bluntly, the reality is that upper income groups in the U.S. and New York are the most undertaxed in the industrial democracies. In Nelson Rockefeller's day the top marginal rate of the PIT was 15%. It is now below 8%. These groups got huge tax breaks in the last twelve years, while working people shouldered more and more of the tax burden.

Restore elasticity to the tax structure to meet future needs. A tax system is elastic if revenue growth keeps pace with personal income growth. Design a new rate and bracket schedule for the PIT. For example, a schedule ending with a 13% rate on taxable income above \$150,000 can be constructed to yield almost \$3 billion additional revenue. Use temporary surcharges to offset the temporary effects of the recession.

This is not a "soak business" or "soak the rich" scheme. It has now been more than five years since New York State revised its tax structure. President Clinton has pledged to make the federal tax system less regressive. It is a logical time to reassess and rethink tax policy, in light of the growing body of evidence that the rationale supporting mid-1980s changes in federal tax policy was misguided at best.

New York State needs to fix its flawed tax system. Such a move would allow New York State

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to avoid harmful tinkering with scattershot increases. It will prevent cuts in services painful to all New Yorkers. And it will respond to the growing resentment felt by average citizens that the system favors the rich at the expense of the great majority.

7. With new economic development principles, restructure all economic planning and development authorities and agencies.

The joblessness numbers prove these bodies are not getting the results we want. First, state government should address the complaints of industrial unions about Industrial Development Authorities (IDAs) and other economic development programs. Reports by Senator Leichter (*A Kingdom All Their Own*), the Fiscal Policy Institute (*New York State's Industrial Development Agencies: Boon or Boondoggle?*) and the work of Assemblyman Pordum disclose the dimensions of the problems and the needed reforms.

Tame the Port Authority

The Port Authority was founded in 1921 to build a harbor tunnel. It never carried out the mission for which it was founded.

Many in the labor movement would say that the Port Authority -- the most powerful of all economic development agencies -- has the most to answer for. They would say it does not need to be reformed. It needs to be re-imagined.

We need a public authority -- democratically controlled -- with responsibility for development of the City's freight transportation infrastructure. To challenge Port Authority priorities is to confront the seemingly all-powerful real estate/banking complex that lies behind both the Port Authority and politics in New York City. But it must be done, or the downward spiral of the City and State economy will worsen.

The Port Authority's most important failing is that the Port of New York continues to decline and our industrial base decays. Another key failing is lack of democratic governance. The PA seems accountable to no one. It is resistant to public scrutiny.

In a hard-hitting series by New York Newsday, it was disclosed:

Item: Since the mid-1960s the New Jersey side of the Hudson River has been the focus of containerport operations and rail freight service, despite the fact that most of the region's workers and economic activity is east of the Hudson River, i.e. in New York State.

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Item: Over in New Jersey, Newark Airport is expanding to handle a doubling in overseas traffic, a monorail is under construction, and more New Yorkers than ever are crossing the Hudson to fly from a booming operation hailed as the metro region's next "gateway" to the world. Here in New York, Kennedy Airport is aged and fraying, struggling to rebound from a four-year slump in its business, and dotted with the wreckage of a \$3 billion redevelopment project gone bust.

Item: New Jersey Governor Jim Florio recently announced a development program to lure business through subsidies financed with Port Authority money.

Powerful interests in finance, insurance and real estate (FIRE) do not want to hear that they are not the linchpin of the New York City and State economic development. They do not want to hear that maritime and rail are key to turning around New York's decline.

We argue: new infrastructural investments should go where they generate most jobs for the region. Putting the facilities in Port Elizabeth defied economic development logic. Obviously, there is no thought of diminishing investment and employment west of the Hudson. But, ship technology and geography argue for putting new port infrastructure investments in Brooklyn, a sand bar that can accommodate ships of any size. Clearances of 50 feet are needed on the new ships.

New York City manufacturing has been hurt by the lack of a freight rail terminus within its boundaries, compelling dependence on higher-cost modes of transport. Is it too late, historically, to reverse the running down of New York's port and freight rail systems? Nonsense. To argue that is to argue that it is too late for New York to prosper again. If a crisis get bad enough, public policy can find a way to undo even long-standing mistakes.

Nobody today says: *it's too late to revamp the U.S. health care system; we have travelled too far down the road of dependence on private carriers and employment-based plans.* The severity of the health care crisis will force systemic change. Necessity is the mother of invention. The economic question for New York is: how much further must the City and State decline before there is recognition of the need to reinvent state economic strategy?

8. Make the redevelopment of manufacturing industry a top state priority. Success must be measured by an expansion of state manufacturing employment. Serious plans set goals and timetables.

The dominant view of too many in state government -- seldom expressed openly -- is that manufacturing is a lost cause. Many think that nothing can stem its decline. They offer instead visions of an "information economy" with high-paid intellectuals working in New York, and low-paid foreigners making things somewhere else in the world.

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We categorically reject the view that the best that can be hoped for is a slowing of the decline of manufacturing. This defeatist assumption has paralyzed public discourse on the economic future of New York. Incidentally, the low-paid workers are not all overseas. Many are in sweatshops in the cities of our state. Sweated labor flips hamburgers in fast food establishments or works in the hidden parts of the information economy -- the minimum-wage back offices.

Already the drumbeat of criticism of President Clinton's pledge to "grow the economy," including the manufacturing sector, is heard from the intellectually bankrupt establishment of the American economics profession. The *New York Times* headline is: *Clinton Job Plan Meets Skepticism*. The subhead reads: Question: How can I add more factory jobs? Answer: You can't. (December 27, 1992)

It's dead wrong. Japan has over 30 percent of its workforce in manufacturing. Germany has almost 40 percent. The U.S. comes in around 17%. Both are beating us in world markets. A world-class economy is a diverse economy. It makes products using state-of-the-art technology and skilled labor. Its manufacturing prowess enables it to easily provide services for people and for business. It constantly repairs and builds.

New York in the last decades put all its economic eggs in the sector called by economists FIRE -- Finance, Insurance, Real Estate. When the recession hit FIRE, we all got burned. The social costs of the destruction of manufacturing in New York are all too clear.

A state of 18 million people in the middle of a region with twice that population has markets to support a healthy manufacturing sector. The state has to decide it wants one.

9. *Economic development for all.*

In the useful new report by the Cuomo Commission on Competitiveness *America's Agenda: Rebuilding Economic Strength, the Critical Issues of 1992 and Beyond and What To Do About Them* (November 1992), the authors correctly observe:

If the past decade has taught us any lesson, it is this: we cannot prosper as a nation unless the majority of Americans prosper, and the majority cannot prosper if the most disadvantaged are excluded. Inclusion, on the other hand, makes good economic sense: distributing employment opportunities as widely as possible builds a broad and stable base for consumption. Growing markets in turn attract investment and propel economic growth.

This state needs to produce more wealth, and distribute it so that its workers can live better. In the years 1980-1992 New York working people suffered, but the pain was not distributed evenly. The inner cities, minority groups, people of color, and many of the new immigrants suffered the most.

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Rebuilding New York means choosing policies that take into account those who suffered the greatest hardship in the bad years.

Re-industrializing New York -- rebuilding manufacturing and maritime in the first place -- is the fast way to create opportunities for these very groups. It is estimated that in New York City about 70% of manufacturing jobs are held by African-American and Hispanic workers.

But the old saying "*A rising tide lifts all the boats*" is not enough. Special measures are needed. In the early 1990s the American labor movement's commitment to affirmative action is a long-settled historical question. But in practice, with mass unemployment intensifying worker insecurity and sharpening racial tensions, with fierce inter-community conflicts in New York City and elsewhere, it is still no easy matter for unions to make progress on that commitment.

The recent Project Pathways Memorandum of Understanding deserves special notice and, perhaps, points a way forward to an economy of inclusion. Partners to the agreement are the New York City School Construction Authority, the Board of Education, and the Building and Construction Trades Council of Greater New York.

The Council and about 20 of its affiliated unions, agreed to the new vocational school recruitment provision for unionized contractors involved in bidding on New York City school building projects. These projects, at \$1 billion a year, are the single biggest source of public construction jobs in a city that has seen construction come to a standstill. There are difficulties in this approach, but it could be a "win-win" solution: more public work for unionized contractors and construction workers, more opportunities for minority young people coming out of the City school system, strengthened apprenticeship programs, and better links between school and work.

The U.S. in the 1970s and 1980s received the greatest wave of immigration since the first decades of the 20th century. Many came to New York. The metropolis has not been lucky in the recent past, but here was a stroke of luck: the massive in-migration of people dropped an immense human resource gift at New York's doorstep. Does this City and State make room *here* for these enterprising new Americans -- most of whom are deadly serious about creating and enjoying wealth? Or do we hang out a sign that says, in effect, *Go West!* Only a more prosperous New York economy than the one we have now will hold these people.

10. *Culture is an industry in New York*

Culture in New York is a more than nourishment for the mind and soul. For New York State, tourism -- dependent both on New York City's role as a world center of arts and entertainment and the natural splendors of upstate New York -- is a \$19 billion dollar anchor industry. From Teamsters to ballerinas, this sector involves tens of thousands of unionized workers directly (actors, musicians,

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stagehands, directors, film editors, camera crews, etc.) and indirectly, hundreds of thousands (hotel trades and restaurant employees, cab drivers, transportation workers, etc.) in an ever-widening circle of industry interdependence.

With short-sighted policies -- reduction or elimination of art and music education in the schools with long-term consequences for audiences, exorbitant hotel room taxes that drive away convention business, zoning laws that drive out artists, severe cuts in the *I Love New York* ad campaign, underfunding film development offices -- government in the 1980's has not done enough to keep New York City the cultural center of the nation and New York State tourism booming. It is an industry in which New York City, in particular, has an immense built up comparative advantage.

Foolish public policy could cause that advantage to be lost. And, unlike finance, banking, real estate and other mobile industries that Establishment economic development wizards have been foolishly counting on, a world cultural center, once established, is not so easily moved.

A 1983 analysis by Port Authority economists -- which ought to be updated -- estimated the high "multipliers" of spending in the arts and entertainment sector. Big public investments in this industry and the larger tourism sector make perfect economic development sense.

11. Create a New York Bank for Jobs and Economic Development

State government needs enhanced powers to implement a bold, new economic vision. State government must mobilize capital behind a new state economic development strategy. Traditional methods are not working well. Organized labor worked with the Cuomo Administration to win enactment of the 1992 Jobs For the New, New York Bond Act. It was defeated. The political contradictions of mobilizing capital for economic development projects with new bond issues were too great. A fresh approach is needed, especially if we envision much more ambitious goals.

By combining capital from the existing patchwork system of public benefit corporations and authorities, with private money from New York commercial and investment banks, and with money from public pension funds, the state could establish an institution that would provide badly needed loans for entrepreneurs, manufacturers, and co-operative development companies. Thinking within all sections of the labor movement on how to wield pension power in the interests of labor's economic and social goals is far advanced. The New York State AFL-CIO Pension Task Force, for instance, has already recommended economically targeted investing in affordable housing.

Democratic governance of such an institution, if it were to be created, would be all-important. If the state is to get greater development powers, there must be enhanced accountability as well, especially if workers are committing their pension monies to the new-institution.

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12. *Genuine economic development is impossible without worker participation. Strengthen labor rights in New York State.*

The U.S. economy -- New York State included -- is about to undergo a transition. Sharper global economic competition, the demands of a post-Cold War economy, the new initiatives from the Clinton Administration, all put change on the agenda in our state and the country at large.

Change can cause insecurity. In the 1980s when the advocates of low-wage, low-skill strategy were running the US economy, the following changes were visited on the American people: de-industrialization, de-unionization, trade policies that export U.S. jobs, lower real wages, restricted access to health care, plummeting public health standards, a plague of substance abuse, declining public services, a widening chasm of social inequality, grievous new inequities in the tax system, and greater insecurity for working people. It is as if in their demented zeal to achieve a kind of "competitiveness" by driving U.S. standards down to the lowest levels in the world, they forgot to ask: *competitiveness for what?* Competitiveness is only good if, by means of it, people live better. An economy isn't a thing; it's the way people are organized to meet their material needs.

What the national handlers tried to do in the last twelve years produced resistance by ordinary people. It took a thousand forms. The final act of resistance was the ejection of President Bush from the White House. But change is coming. Far-sighted officials who want to win broad public support for progressive, new policies to adapt to the inevitable economic transition can do so by winning the consent and involvement of the most important organizations of working people in this economy, unions. Working people will resist with all their might changes that heighten their insecurity. But they can be won to changes which are accompanied by greater say over their own working lives and which respect their unions.

A world-class economy is built on active participation by skilled, high-paid workers. All current discussion in academic, trade union and public policy circles about the way technology and global competition are spurring a re-organization of work involves empowering workers in the workplace. All fresh thinking about new kinds of industrial relations points in the same direction. The assembly-line system of mindless repetition is increasingly a thing of the past. Unfortunately, the discussion often ends just when it should be starting.

These are ideas whose time has come. Notions about empowering workers and raising skill levels are consistent with the views of those taking over the US Department of Labor. Those who followed the Little Rock Economic Summit will recognize the new administration's stress on the economic benefits of early childhood education, day care, enhanced vocational and higher education, lifetime training and retraining, and other measures connected with increasing skill levels. Emphasis on labor quality, not tax cuts for corporations and the wealthy, as the engine that drives economic growth was the major consensus position that emerged from the Summit. What a radical departure these ideas are from the doctrine which prevailed over the past decade and a half.

As those who are familiar with the rationale for New York's *Excelsior* Award know, voluntary participation by workers to achieve quality and productivity can only be achieved in workplaces where there is respect for labor rights. A cowed workforce at risk of firing for talking union or threatened by loss of health benefits cannot take New York industry into the next century. Labor rights begin with the right of the individual worker to organize and join a union.

For the last 12 years even this basic right has not been secure under U.S. labor law. The U.S. is the only country in the industrialized world where union-bashing has been government and business policy.

Respect for labor rights entails respect for the role of the union in the modern economy. A government that wants to encourage cooperation does not treat public employees with hostility. It practices cooperation as an employer. Government in the 1990s with an eye to success in the global economy cannot be neutral on the role of unions, let alone hostile. It is not a coincidence that the decline of the standard of living of the American people happened at the same time as the decline in the strength of the American labor movement.

New York State cannot be revitalized by saving money through the use of prison labor to paint bridges. A government that does not respect seniority and find the ways to retrain the public workforce is in no position to urge private firms in the state to retrain their workforce.

Unions are a brake on poverty. Broken unions mean that the brakes fail. Stock prices may go up, but the country goes to hell. Unions do the job that government starts. Government passes laws on minimum standards. Unions help enforce them and spread them.

Building a world-class economy requires federal labor law reform to protect the rights of workers to form unions, and it requires full acceptance of unions as partners in development by all levels of government.

CONCLUSION

"New York was here before America. We invented banking. We invented the Midwest. We really did. They all came here to New York City, spoke in a Babel. Then they worked their way up the Hudson River, found Albany... They did Albany and they did the Erie Canal and they got to the Great Lakes. Voila, the Midwest. We made Michigan. We created all those places. You should understand that."

Mario Cuomo, Governor of the State of New York, December 18, 1992

Hyperbole? Of course. But there is also profound historical truth in this theme the governor intends to develop in a forthcoming book to be entitled The Real New York. The governor's obvious pride in his state is the same spirit which infuses this call by the New York labor movement for a new and better economic strategy for New York. The conventional wisdom is wrong. New York is not fatalistically destined for relative decline. If our state faces up to the real causes of decline and changes direction, it can regain economic pre-eminence.



APPENDIX

Developed by the Corporation for Enterprise Development in *Playing By New Rules: Nine Economic Development Realities for the 90's*, the following principles are a starting point for a new economic strategy:

Strong economies can have high labor costs. Value -- what business gets for what it pays -- is really what matters.

Today, most successful world-class U.S. companies compete on the basis of quality, not cost.

An active public sector helps build a strong economy and high rates of growth.

Public investment, if made strategically and thoughtfully, can enhance the productivity and profitability of private investment.

Few businesses relocate. Most new jobs come from on-site expansions and business start-ups.

Even when a state successfully attracts a footloose plant, the chances of keeping it are not as great as keeping an existing in-state business.

State and local taxes represent only a small portion of the total cost of doing business. Tax inducements more often than not are ineffective at attracting businesses to a specific location.

Tax incentives are not the litmus test of whether a state or community supports business development.

Manufacturing remains a key sector of our economy.

The U.S., as well as other leading industrialized nations, have -- and need -- highly successful manufacturing firms and sectors.

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Small businesses are major contributors to U.S. job creation and economic growth.

Large companies continue to play an important role in generating economic growth.

There is no inevitable conflict between growth and equity.

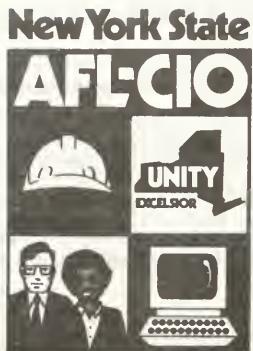
In a knowledge-based economy -- where educated and skilled people provide the principal competitive edge -- public investments in low and moderate income Americans earn a good return. Indeed, they are essential to the overall success of the U.S. economy.

Unions are present in high-productivity firms and in growing national, state and local economies.

Unions can be an asset in forging the new labor-management programs that provide firms and workers with the greater flexibility, quality and innovation necessary to compete.

The negative economic impacts of pollution controls are overstated, and the positive economic consequences often overlooked.

Maintaining and improving workplace health and safety standards can save lives and dollars -- as well as contribute to long-term economic well-being.



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